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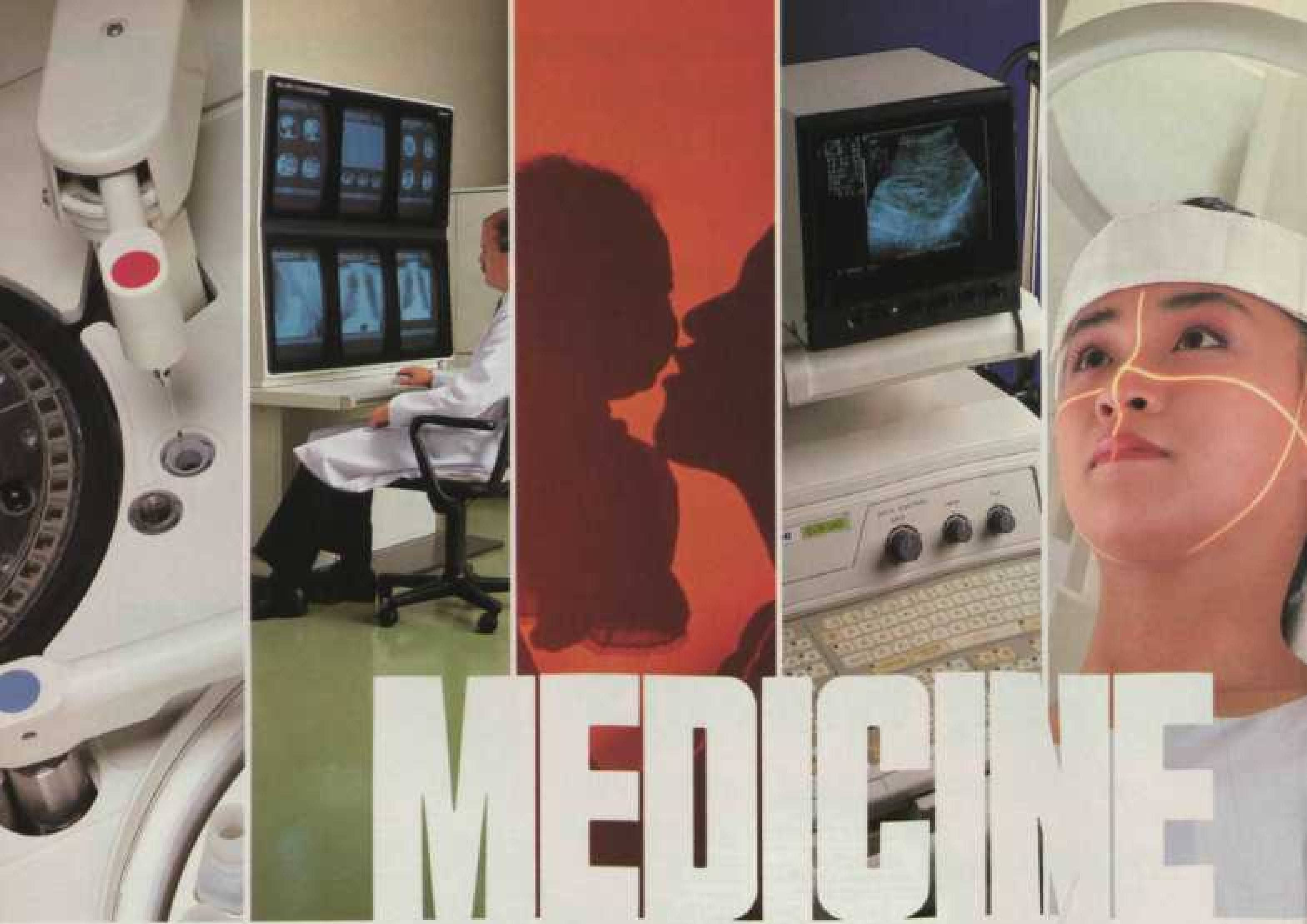
MEDICINE

VOL. 76, NO. 2

Nation's Business

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MANAGING YOUR BUSINESS

With too few young workers for entry-level jobs, employers turn to retirees, immigrants, the disabled. (Cover Story, Page 16)

Sidney J. Taylor, center, encouraged sons Scott, Jeff and Bruce to join the family banking business. (Page 70)

PHOTO: RICHARD DERK

Cover Design: Vignelli Associates
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DEPARTMENTS

Shelagh Watson turned larger-size women's footwear into a big success with her Magnifete shoe store in Cincinnati. (Page 75)

PHOTO: MARCY NIGHSWANDER

COMMENTARY

Don't Call Me; I'll Call You

By Sharon Nelton

It's a quarter to seven in the evening. I haven't been home from work very long. I'm starting to prepare dinner. Or I'm hustling into a leotard, hoping to get to my exercise class on time. Or I'm just trying to catch my breath and relax a little. Or if I'm lucky, I might actually be sitting down for a bite to eat.

The phone rings. I know who it is, but a little voice inside me says, "Maybe it's not who you think it is. You'd better answer."

I answer and, darn, it *is* who I think it is—a telemarketer. Someone trying to get me to buy something at a time when the last thing in the world I want to hear is a sales pitch.

I'm sure it's sacrilege to say this in a magazine that advocates business, but *please don't call me.*

Don't call me at home to try to sell me something. You're disturbing my privacy.

Especially don't call me at dinnertime. I'm eating. (Your *mother* told you not to call folks during the dinner hour. It's not polite.)

Don't call me after dinner, because I'm expecting a phone call from one of my children or my mother or a friend. Or I'm watching television or reading a sexy novel.

Telemarketing brings out the indignation in me. I hold no grudge against business-to-business telemarketing as long as it's done during business hours at places of business. But my rage gauge begins to climb when consumer-sales calls come into my personal refuge.

First, the ringing of the phone itself disturbs the peace and creates some stress, no matter how minimal. Second, there's the disappointment of not finding a friend or family member on the line but someone who wants to profit from me.

Third, there's the energy I have to use to fend off the sales talk. And the guilt I feel knowing that the poor man or woman on the other end of the line is being paid relatively low wages to do a job for which they must endure constant rejection and occasional abuse. I don't want to hurt their feelings, but I'm angry at the same time.

Fourth, there's the discourtesy I'm forced to resort to when politeness fails and a persistent caller won't take "no, not interested" for an answer. One caller pressed me to reconsider when I told her I did not want new cabinets for my kitchen, and she queried me insistently when I said I wasn't interested. My house was getting old, she said. (Nine years.) Weren't my cabinets looking pretty old-fashioned by now? (No.) She actually put me on the defensive.

PHOTO: T. MICHAEL KEZA

I hold no grudge against business-to-business telemarketing . . . . But my rage gauge begins to climb when consumer-sales calls come into my personal refuge.

Sometimes I resort to the ultimate rudeness. I hang up on the caller. I have to be really angry to do that. Unless, of course, the caller is a robot. If you are going to call me despite all I've said, why insult me further by sending a robot to do your dirty work?

If you're a business owner who uses consumer telemarketing, admit it: Doesn't it bother you when someone uses the same tactic with you? Don't you remember standing outside your door with two large grocery bags in your arms, fumbling for your keys in the rain, finally getting to the phone just in time to hear a strange voice announce the equivalent of "Have I got a deal for you"?

And how could you forget the Sunday evening that you and your guests sat down to dinner and your insurance man called with the suggestion that you upgrade your homeowner's policy? My agent actually did this. He gets the award for working odd hours but not for being sensitive to a client.

Since businesses continue to use telemarketing, it must get results. So I'll be powerless to stop it. But how many times does it turn a potential customer off? Is anybody counting?

Businesses, of course, are not the only telemarketers. Even my favorite and not-so-favorite charities have taken to the telephone campaign to drum up donations. Boy, I hate the guilt trip they put me through when I decline an opportunity to send 35 deprived children to the circus or buy lifetime-guaranteed light bulbs from the handicapped.

I think it's the way I end up feeling about myself that really drives me over the telemarketing edge. If I don't feel guilty, I think less of myself for being rude or lying outright (as in, "I can't talk to you now; I have company").

In my opinion, if you want to win customers and contributors for life, you make them feel good about themselves. You make them feel they're the smartest people on earth for buying what you have to sell. You make them feel special. You make them feel thin. You don't make them feel guilty or mean or small.

I have developed a standard line: "I do not make decisions like this over the telephone. If you wish to send me something through the mail, I'll be glad to take a look at it."

Most telemarketers don't follow up. Occasionally, however, a savvy caller will surprise me by sympathetically offering to take me off the telephone list—and that caller's organization has a way of sticking pleasantly in my memory when I do receive something in the mail.

Telemarketing has become such an annoyance in my life that I'm considering taking names and boycotting the businesses, charities and political organizations that use it. A sort of walking the Yellow Pages in reverse.

So, take my name off your call list. Give me some peace and quiet. Find another way to pitch your message to me. I'll think more kindly of you when you do. And I'll be in a better mood. NB

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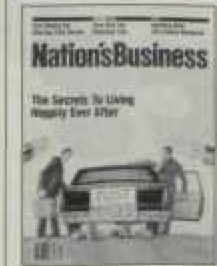
Letters



More On Mergers And Acquisitions

Our comments in your December cover article "Just Merged" on how to value a closely held company were made before the severe October 19 stock-market drop. Since then, we have been asked what the effect of that drop has been on the value of smaller, private companies.

So far, we have not seen any direct change in the selling prices of closely held companies, and we expect only slight drops—unless there is a recession.

For larger companies, however, there has been a clear decrease in offering and selling prices. We just completed an analysis of seven transactions involving larger, public companies and found the offering prices had dropped an average of 22 percent.

Although we expected such decreases to filter down to smaller companies' prices, neither we nor other sources we contacted have seen a drop. This could be for three reasons:

First, owners who have their personal fortunes tied up in their companies may be more reluctant to reduce selling prices than professional managers of public companies.

Second, many private investors are looking for investments outside the stock market and may find smaller companies, with their hard assets and earnings powers, more attractive than stocks. This would increase the demand for smaller companies and tend to keep their prices higher.

Third, many smaller companies are bought for business "fit" reasons and not just as investments. Thus they are not as dependent upon the stock market as public companies.

So, while we expect a slight decrease in the value of smaller companies, we have not yet seen it reflected in the market. This means owners should try to lock up deals as quickly as possible to get their full prices or be prepared to take smaller payments, or larger portions of the payments on a contingent basis, if general economic conditions worsen.

George J. Stevenson
Stevenson & Company
Chicago

If women executives don't object to your December cover illustration [two executives entering a car marked "Just Merged"], I'd be surprised. Couldn't it be possible that a business headed by a woman could have merged and be so illustrated by one of the partners being female?

John DeFrancesco
Deerfield, Ill.

A Bear By Any Other Name

Regarding the "Have Yourself A Wary Christmas" item [December] describing some of the unusual holiday gifts available this year, I was surprised that the founder of the North American Bear Company, Inc., does not refer to herself as Bearbara Isenberg.

Raphael Levi
Englewood, N.J.

Right Problem, Wrong Wallet

Some aviation-industry spokesmen concluded that the exasperating airline-flight delays, ticket-counter lines and baggage snafus that all air travelers have faced are caused by Washington "budget games" with the aviation trust fund ["Pay Now, Fly Later," November]. This is little more than an attention-diverting excuse. Consider the following:

- The U.S. Department of Transportation has documented that, during peak hours, airlines have many times scheduled more takeoffs and landings than can be physically accommodated. In essence, many flight delays have been programed into flight schedules by airline management. For instance, 73 operations were scheduled in a 15-minute period at Atlanta when that airport realistically could handle only about 37 during that period. Correcting this situation is *not* a federal-budget problem.
- We have no federal-appropriation account for airline baggage handlers and facilities, ticket agents, computer equipment or other service personnel and equipment needed to give passengers better service. If airlines have continuing problems in these areas, they ought to spend the money to correct them.
- The existing shortage of airport

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Letters

capacity will no doubt worsen in the years ahead. But money is *not* the principal problem. The 70 largest airports in this country are financially self-supporting and can readily finance improvements. The real problem is where to build runways and airports in the face of community opposition to possible environmental harm, congestion and noise.

- The $5.6 billion aviation-trust-fund balance is inflated artificially by at least $3.8 billion. A little-known and unprecedented accounting gimmick called the "penalty clause" was added to airport-authorizing legislation in 1982, causing the general fund to overpay its authorized share of FAA expenses by that amount. "Users" have been heavily and unfairly subsidized by the general taxpayers.
- If the whole FAA budget were paid for by user taxes (as many erroneously believe), the aviation trust fund would soon go broke. There would have to be a user-tax increase just to raise sufficient revenue to maintain current spending levels.

The deteriorating quality of airline service rests on airline management's shoulders. The sooner it ceases making excuses and gets about the job of fixing deficiencies, the sooner our air-transport system will return to first-class status.

Rep. William Lehman (D-Fla.)
Chairman
Subcommittee on Transportation and Related Agencies Appropriations

The Fear Factor

IRS Commissioner Lawrence J. Gibbs' opposition to the Taxpayers' Bill of Rights is understandable ["Making The IRS Accountable," December].

If it is passed, then the "Mafia" arm of the federal government also will have to operate under the U.S. Constitution.

I, like the federal government, had a deficit last year. I made some poor business judgments and came up short at tax time. Now I can't sleep at night. I live in fear that before I come up with the cash, the IRS will take what little I do have.

Unlike the man in your article, I'm not going to contact the IRS. If I knew that I could consult with an IRS official in our area and be assured this problem could be resolved, I would. But I fear I would be treated like a common crook. The Internal Revenue Service could save time and money and could collect taxes more effectively if people knew

COMMENTARY

Letters

they could discuss and solve problems with them and be assured of basic human rights.
Name Withheld

The War Rages On

Yes! Yes! Yes! I agree with Tara Roth Madden's observation that women do undermine each other in the office ["Women At War With Each Other," November].

As a homemaker for 10 years, I was part of a society of women who were geared totally toward support of one another, sharing helpful hints and positive feedback in moments of doubt. A strong spirit of cooperation and mutual encouragement abounded.

At age 31, I entered another world, the workaday, get-ahead, 9-to-5 world. Suddenly women were not my confidants, they were my competitors—and often not for better positions, better pay or prestigious titles, but for the boss' attention!

I noticed men in power were catered to, idolized and generally not disagreed with, while women in power were the subjects of disgruntled discussions, nitpicking and pettiness. Why? Because women viewed men as all-powerful avenues to success, while other women were viewed as competitors to step on while stepping up.

While I agree with Madden's observations, I am opposed to her solutions. We should encourage women to start their own businesses, join traditional male business organizations and compete and act as equals.
Jennifer Speer
Lewiston, Idaho

I have seen many examples of females supporting each other, and I would like to share one that involved another woman and me:

She was trying to move from a secretarial position to a professional one. I was trying for a promotion which was against our corporate culture because of my youth. Both promotions were tied up in considerable political and procedural red tape.

We formed a partnership to share information and strategize together. We kept our teamwork quiet and gave each other practical and moral support.

The end result was that we both reached our goals. It was one of the best examples of teamwork I have experienced, and we are still friends four years later.
Dale Brown
Washington

I became self-employed to get away from the guilt of having a "latch-key kid" at home.

The guilt came from the raised eyebrows of former co-workers—female co-workers.

Now I find that a majority of the female buyers I deal with resent me and will not aid me because I *am* self-employed and therefore free to have mothers' hours.
M.J. Reynolds
Huntsville, Ala.

Because the corporate ethic has been shaped primarily around the male ethic, does that make it better or more appropriate or even right? I believe not. Reshaping that ethic—better yet, expanding it to include another perspective—will help us all, males and females, to learn new and better ways to cooperate and advance.

We need more authors who will *applaud, praise, encourage and support* the females and males who are redefining old expectations and roles. I admire and respect these pioneers for their convictions and the courage they demonstrate day after day.
Carolyn DeHond
Career Development Services of Rochester/Women's Career Center, Inc.
Rochester, N.Y.

Customs-Brokers Licensing

I noticed in your November Direct Line column the statement that U.S. customs-brokers are licensed by the U.S. Maritime Commission. Actually, U.S. customs-brokers are licensed by the Treasury Department. Freight forwarders are licensed by the Maritime Commission.
Robert Noell
Vice President
Cain Customs Brokers, Inc.
McAllen, Tex.

Correction

The photo accompanying the article, "Expanding On A Fast Track" [October] was taken by Jon Asher. The photo credit erroneously named another photographer.

Nation's Business

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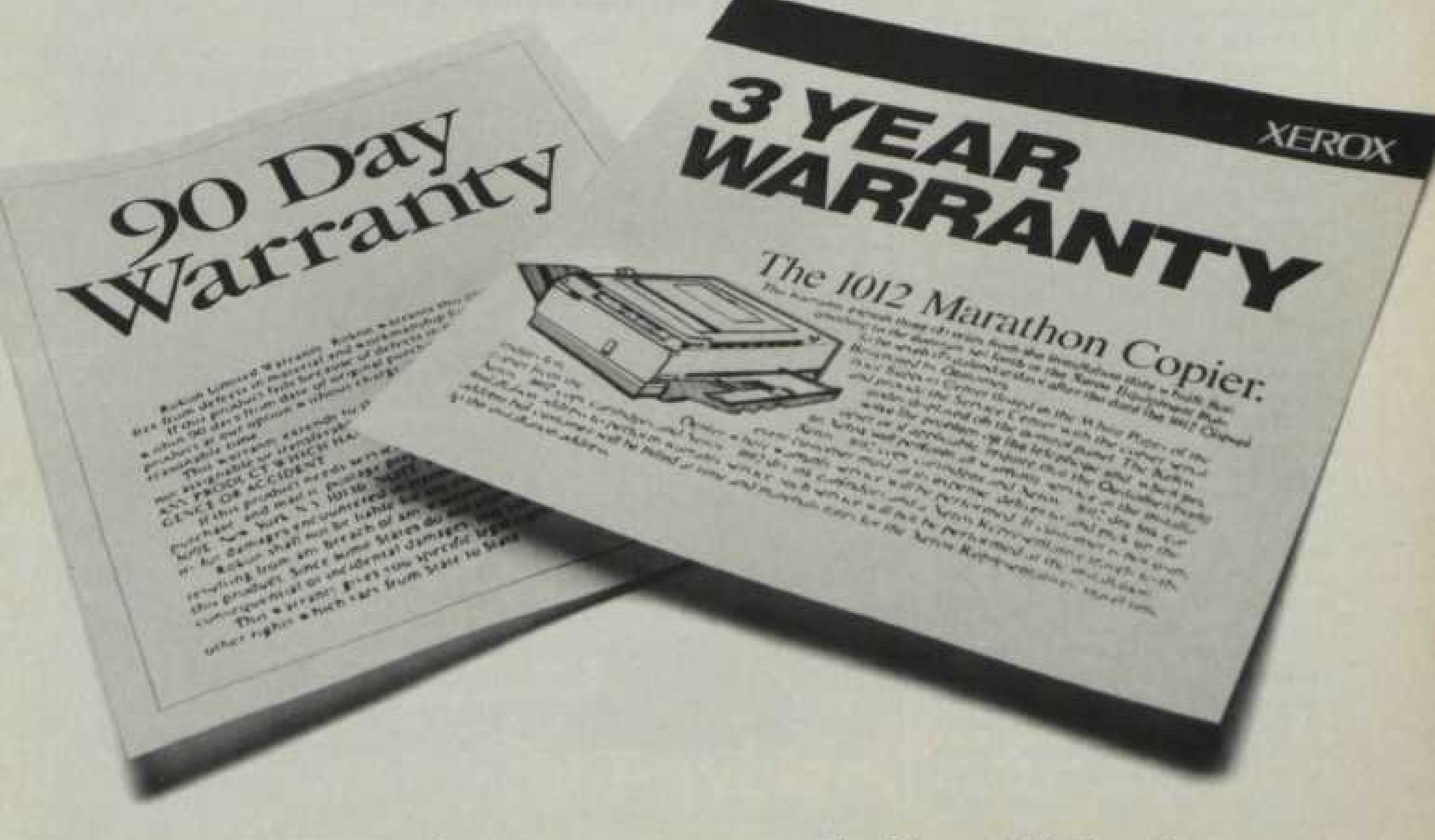

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Small-Business Update

By Joan C. Szabo

Setback For Service Tax

Efforts by state governments to levy a tax on services were dealt a setback when the Florida state legislature recently repealed its highly controversial 5 percent tax on services.

"A number of states were considering a service tax, but many now will reconsider enactment of such a tax in light of the Florida example," says William R. Brown, president of the Council of State Chambers of Commerce.

The service tax, which took effect in July, 1987, applied to almost all services provided in Florida by both in-state and out-of-state businesses.

But the effort to tax services is far from dead, and business must remain wary of such efforts by states, says Brown. He notes that states considering such a tax have learned from the Florida experience. "They won't make the two big mistakes that Florida made. Namely, to include advertising as a service to be taxed and to reach too far beyond a state's borders with the levy."

Jim Brainerd, general counsel and chief lobbyist for the Florida Chamber of Commerce, says that business people in his state originally thought the tax law could be amended to meet their objections. But the legislature was unable to do so, he says, and repeal was the best solution.

The U.S. Chamber of Commerce was opposed to the extraterritorial nature of the Florida levy, which allowed the tax to reach beyond Florida's borders. For example, the tax was applied to advertisers who ran ads in Florida media as part of national campaigns.

The Florida levy was especially burdensome for small companies, which usually go outside their firms to purchase services such as accounting advice, Brainerd says. "Paying for a service plus the tax on the service increases the cost of doing business."

The aim of the levy was to raise revenue for the state, which has no income tax. But officials estimate that Florida lost $35 million in convention business and millions of dollars in advertising because of the tax.

For example, the Association of National Advertisers canceled its 1989 annual meeting in the state when Florida enacted the service tax.

After the legislature repealed the tax, ANA announced its decision to hold its 1990 annual meeting and business conference in the state.

To offset the revenue loss through the service-tax repeal, the state raised the sales tax to 6 percent from 5 percent effective February 1.

Reforming Unemployment Compensation

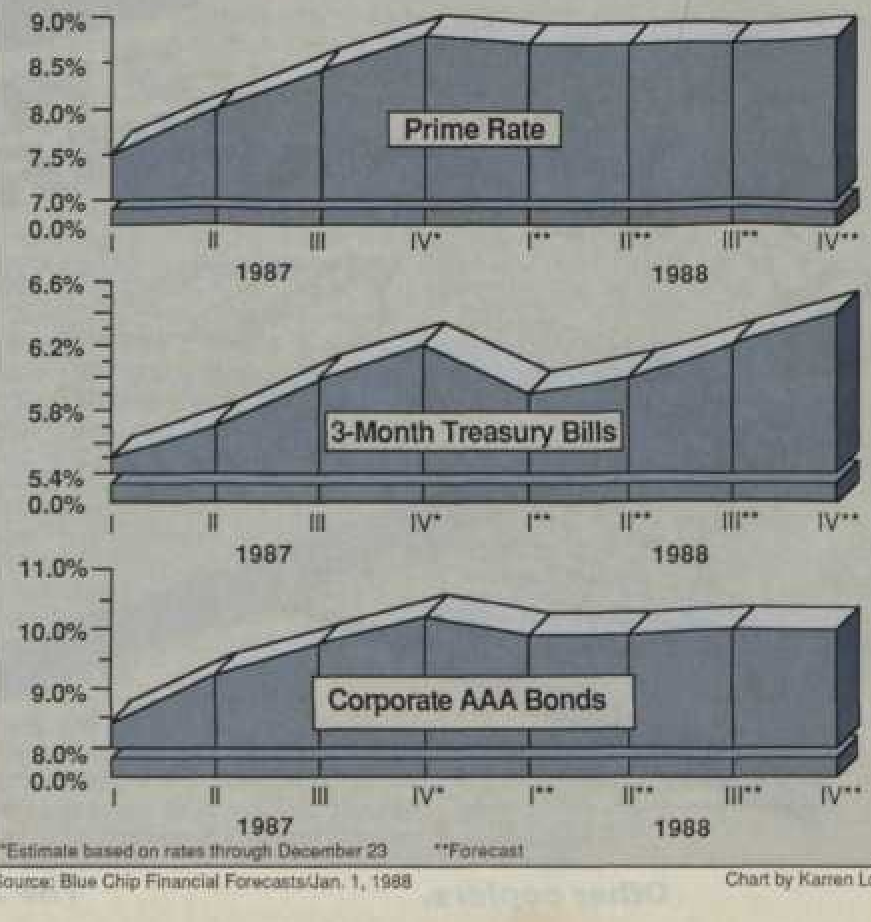
The country's unemployment compensation program is beset by overpayments totaling about $2 billion a year and needs reform, says a new study from the National Chamber Foundation, an affiliate of the U.S. Chamber.

The Department of Labor estimates that overpayments to claimants could reach more than $9 billion over the next four years.

Authored by two economics professors from Arizona State University, the study points out that overpayments occur for various reasons, and do not necessarily entail deliberate efforts by claimants to obtain benefits to which they are not entitled. Professors Paul L. Burgess and Jerry L. Kingston note that overpayments reflect more fundamental difficulties with the system, such as excessive complexity, the lack of incentives to improve the program and the impossibility of effectively monitoring compliance with eligibility.

The authors recommend improvements in the program, such as eliminating ways to take advantage of the system. They suggest increasing penalties

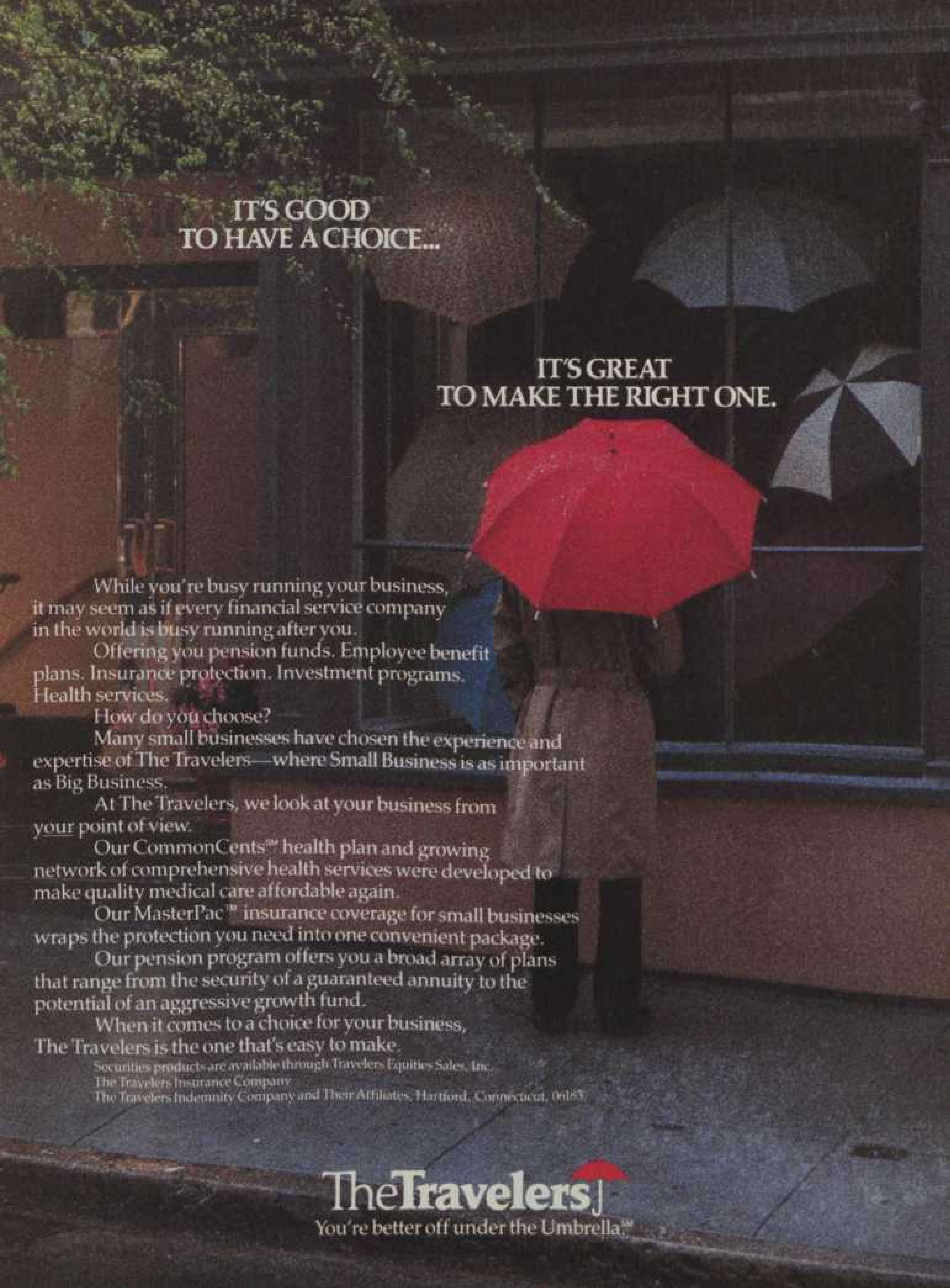
Interest Rates Moderate



*Estimate based on rates through December 23 **Forecast

Source: Blue Chip Financial Forecasts/Jan. 1, 1988

Chart by Karren Loeb



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for abuse and creating computer profiles of the most frequent types of violators for more effective claims reviews. They also suggest that the Labor Department and state agencies be encouraged to adopt more balanced incentives to emphasize payment accuracy rather than just promptness.

Says John Volpe, vice president of the National Chamber Foundation: "The findings show that state and federal governments must overhaul their unemployment-compensation programs. American business can no longer sit by idly while its money is wasted on an inefficient program."

A paperback copy of the study, "An Incentives Approach to Improving the Unemployment Compensation System," is $13.95 from W.E. Upjohn Institute for Employment Research, 300 S. Westneedge Avenue, Kalamazoo, Mich. 49007.

Fighting Computer Crime

There are a number of steps small firms can take to safeguard their computer operations, advises a new booklet from the Small Business Administration titled "A Small Business Guide to Computer Security."

Establishing information security as a management priority is an important first step. Developing an information security policy, implementing it, then communicating it properly to employees significantly aids this process.

Small firms also should identify their information resources and determine sensitivity to and the potential impact of losses, advises the guide. Since computer security requirements will vary for different computer applications, a firm must identify which of its business computer applications or uses require additional protection. To do this, it must develop an inventory and identify the applications of each computer.

Appearing before the House Small Business Subcommittee on Regulation and Business Opportunities, SBA Administrator James Abdnor outlined a new educational effort by the agency to assist small-business owners in fighting computer crime.

IRS Interest Rates Rise

The Internal Revenue Service has announced the rate of interest it levies on tax underpayments was raised one percentage point, to 11 percent, for the calendar quarter beginning January 1.

Quoteworthy

"I have been around Congress long enough to know that whenever we get our hands on some more dough, we are going to spend it."
—*Rep. Del Latta (R-Ohio), questioning assurances that tax increases in the new federal budget will be used for deficit reduction and not for higher spending.*

"Small firms have been a remarkable catalyst for technological advances in this country. We cannot afford to lose their innovative contribution in biotech. It is critical for America to have a variety of small and large firms [in biotech work]."
—*Sen. Patrick Leahy (D-Vt.) in Senate remarks following hearings on U.S. competitiveness in biotechnology.*

"The answer to the trade deficit lies in convincing the American consumer that 'made in the United States' does mean high quality and does mean high value."
—*Commerce Secretary William Verity.*

Under tax reform, interest rates are set quarterly instead of semiannually. In addition, the interest rate for tax underpayments to the IRS is 1 percentage point higher than the rate the agency pays in certain instances on overpayments returned to the taxpayer. The rate on overpayments is 10 percent, up from 9 percent.

Export Conferences For Small Firms

The planning continues for a series of nationwide export conferences to be held this year under the sponsorship of the Small Business Administration, American Telephone & Telegraph Company and the U.S. Chamber of Commerce. The aim of the meetings is to provide assistance to small firms that hope to become involved in exporting.

Some of the conference locations and dates have changed since *Nation's Business* first mentioned the conferences. The new schedule: Los Angeles, March 16-17; Atlanta, March 24-25; New York, April 20-21; Detroit, May 23-24; Kansas City, July 16-17; San Francisco, July 28-29; Denver, September 8-9; Boston, September 15-16; Houston, September 22-23. NB

This Month's NB TIPS

Helpful hints on devising a business plan are available in the revised edition of *The Business Planning Guide*. Written by a small-business owner for small-business owners, the 142-page guide provides plenty of examples and work sheets to help readers begin the planning process.

The publication is available for $16.95 from Upstart Publishing Company, 12 Portland St., Dover, N.H. 03820.

Up Your Cash Flow outlines cost-effective steps you can follow to increase your company's profits by 25 to 50 percent. The book explains how to cut business costs, monitor financial success, prepare a one-year cash forecast and get your banker to say yes.

Written by Harvey A. Goldstein, an accountant who has advised small firms for over 18 years, the 169-page book is available for $12.95 from Granville Publications, 10960 Wilshire Blvd., Suite 826, Los Angeles, Calif. 90024.

Start-up funds for women wishing to launch a business are being offered by the National Association for Female Executives.

The 200,000-member organization of working women nationwide has announced the creation of the NAFE Venture Capital Program.

The program will provide investment capital funding, ranging from $5,000 to $50,000, each year for up to five businesses started or owned by NAFE members. For more information, contact NAFE at 1041 Third Ave., New York, N.Y. 10021; (212) 371-0740.

COVER STORY

Desperately Seeking Workers

By Harry Bacas

America's growing shortage of young workers, an increasing problem for over a year in the fast-food, lodging and retail industries, is now starting to pinch small businesses in many additional areas of the economy.

Chuck Fuller, business manager of the 14-employee Rye Telephone Company in Colorado City, Colo., says, "These days it is so exceptional to find an employee with the skills we need who is willing to relocate, that we have to hire untrained locals and teach them."

In Deerfield Beach, Fla., Stephen C. Pomeroy, an electrical contractor with 70 employees, says his newspaper ads offering good wages and paid training for apprentices no longer get much response.

John J. Daly, controller of Edgewood Tool and Manufacturing Company, an auto-parts maker in Taylor, Mich., says his two plants now have starkly contrasting staffing situations. The main plant, near Dearborn, enjoys an abundant supply of skilled tool-and-die makers, millwrights and die setters, as well as apprentices. But the company's highly automated assembly plant in Ann Arbor, home of the University of Michigan, copes constantly with the problem of finding part-time college students to tend its automatic machines, even though the plant pays the highest wages in the industry.

In Des Moines, Wash., Wesley Homes, a retirement community with 430 employees, has such a severe shortage of registered and practical nurses that it is offering scholarships to encourage young women to enroll in nursing schools. Says Executive Director Ron Klipping: "We're trying everything else we can think of." The compa-

In a rented camper that visits Washington-area shopping centers and school parking lots, recruiters seek applicants for Giant Food's supermarket jobs.

PHOTO: T. MICHAEL KEZA

The pool of young workers is shrinking rapidly, and businesses are finding it increasingly difficult to recruit qualified employees, particularly for entry-level jobs.

ny even pays an employment agency 40 percent above regular nurses' pay to supply enough nurses.

The nation's supply of young workers will continue to drop for seven or eight more years before bottoming out and starting up again, statistics show. The long, downward curve represents the passage into the workplace of the "baby bust" generation, born between 1965 and 1979. Its numbers are too small to replace all the "baby boomers," those who were born in the years of high birth rates after World War II and who now are moving toward middle age. The number of young people aged 16 to 24 in the U.S. population will drop by half a million each year until 1995.

Just since 1978 the number of workers aged 16 to 19 has dropped by 20 percent. And the number of workers aged 20 to 24 has begun to shrink.

The effects are being felt in education and the military as well as in business.

Colleges are helped in dealing with dwindling youth enrollments by the increasing number of older adults entering or returning to school. The armed services have maintained their manpower goals only by putting more effort and expense into recruiting.

And businesses are not only competing harder for the available young people but are also looking increasingly to alternative population segments, such as retirees, to find entry-level workers.

There are more changes ahead for America's employers. Even when the youth numbers begin to rise in the next decade (the birth rate started up again in the late 1970s), other demographic shifts will continue. Of all new entrants into the labor force between now and the year 2000, 80 percent will be wom-

Mike Robino (left) and Frank Timmons work for Rye Telephone, a Colorado City, Colo., company that must train employees because those with required skills are hard to find.

PHOTO: JAMES COOK


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GRAINGER

en, members of minority groups or immigrants.

Today's youth shortage varies widely with geography. The effects are being felt more in big cities than in small ones, and more in the Northeast and on the Pacific Coast than in the country's interior. It also is felt mainly in industries that rely on young, unskilled workers or on particular skills such as nursing.

Two trends are aggravating the problem:

- The type of jobs being created now and in the future will require higher skills.
- Young people in increasing proportions are leaving school—whether before or after graduation—without having acquired even basic working skills.

The National Retail Merchants Association, in a study of its members' hiring problems, concluded that "in most of the U.S., American youth has become a much-sought-after commodity . . . in spite of the fact that, when available, the average quality of young workers seems to leave a lot to be desired."

The retail study found that stores with the least recruiting problems were in the South, Midwest and mountain regions, while those with the severest problems were in Atlanta, Boston, Los Angeles, San Francisco, Washington and the New York-Newark region. The study also found that wherever there were recruiting difficulties in the suburbs, there were also problems in the inner cities.

The hotel industry has felt the entry-labor shortage in the same localities. Dave Sampson, human-resources director for Marriott hotels in New England, says he is sure it will get worse: "In three or four years, what we're dealing with now in the Northeast corridor will be a national problem."

In a study commissioned by the National Restaurant Association and done by Arthur D. Little, Inc., researchers concluded that the food-service industry could find itself short a million workers by 1995, "without adjustments to such factors as pay and benefits or tapping new labor sources."

The search for new sources of workers is well under way. Lawrence A. Guest, senior vice president of Marriott Hotels and Resorts, says: "It's clear our company, like others, faces two challenges:

"First, we want to get our fair share of the youth component of the population. Second, we need to change our ideas about what components we can draw on.

"We've been giving very close thought to our job requirements. For example, we're recruiting the handicapped for jobs we know they can do. A blind person may not be able to work as a bellhop, but there's no reason a blind person can't run a PBX or telephone system. A mentally handicapped person can work in a dish-washing room.

"We're hiring from other nontraditional groups, too—housewives, for part-time work, retirees, the economically disadvantaged, minorities, recent immigrants, inner-city residents, laid-off workers from other industries.

"One of our facilities is almost entirely staffed with dependents of military personnel," says Guest. "I won't name it because I don't want to alert the competition, but it's a food-preparation operation on the East Coast."

Some employers, particularly large companies, fill spot shortages by calling on agencies that provide temporary workers. As a result, temporary services make up one of the fastest-growing segments of the economy, and the agencies for temporary workers are also resorting to creative recruiting.

Employers in traditionally low-wage industries need less expensive and

Hank Siewert, 63, sells shoes for Mervyn's, a California-based chain of department stores that hire in their communities and seek retirees and others who prefer part-time work.

PHOTO: ROBERT HOLMGREN

more permanent solutions than temporaries, however, so many are seeking their own recruiting innovations.

One widely copied example is that of Giant Food, Inc., a supermarket chain in Maryland, Virginia and Washington, D.C. Giant recruiters regularly take a rented Winnebago camper on tours of shopping centers and school parking lots in search of workers.

"The toughest areas to hire in," says Giant Vice President Barry Sher, "are the affluent Washington suburbs, where young people live in upscale families. It's difficult to attract those kids with $4- or $5-an-hour jobs when they can make $20 mowing lawns."

It isn't just a matter of pay. Electrical contractor Pomeroy says he sees young people working in some Deerfield Beach, Fla., stores for $3.50 an hour, "but it seems there are not many of them interested in learning a trade." Pomeroy offers to pay an apprentice $5 or $6 an hour while learning and $12 or more an hour after passing the tests to move up to journeyman.

After workers from alternative categories are hired, a company may need to adjust its job benefits. For example, assistance with day-care arrangements may be the key to turning a young parent into a productive employee. Employers should examine their benefit programs to see if they are flexible enough to meet varied worker preferences.

Sometimes the problem is simply getting the workers to the job. In Worcester, Mass., more than a dozen hotel employees climb into a company bus each morning for the 15-mile ride to a hotel in suburban Westborough. A Washington suburban dry cleaner arranges transportation in company trucks for inner-city workers. Department stores on Long Island carry seasonal workers from Brooklyn by chartered bus.

Mervyn's, a chain of family department stores in California and 12 other states, prefers to find its workers in each store's neighborhood. The chain advertises in local weeklies; sends representatives to churches, senior-citizens groups and community organizations; and recruits through school career centers.

Keith Robinson, Mervyn's personnel director, says that in upper-middle-income neighborhoods like much of the San Francisco Bay area, "we have to find alternatives." A leaflet put into customers' shopping bags at some stores says the company has positions available in sales, stock and office areas. It says: "We are looking for people who are proud of their accomplishments in life. Many of our people have done things like this:

"Managed a household

"Raised children

"Volunteered for civic affairs

"Organized clubs, groups or teams

"Decorated or remodeled their residences

"Retired from other jobs."

The folder says Mervyn's offers discounts, advancement opportunities and flexible work schedules and is "a great place to work."

Because young people are scarce and many older residents aren't interested

Finding Workers In A Tight Market

How can a small business get qualified help if the changing labor market makes young workers even scarcer? A company having problems finding workers may need to overhaul its personnel practices, experts say.

Employers should first broaden their horizons, says London House of Chicago. In its publication "Finding the Hidden Labor Market," it says companies looking for workers should expand their search to groups they may have overlooked. These include older persons, young parents, persons with disabilities and members of minorities.

• **Older Workers.** Take a tip from McDonald's and the Marriott Corporation, which actively recruit senior citizens and have found them to be reliable, honest, skilled at dealing with other people and often available part-time or on short notice.

Although seniors usually don't read help-wanted ads, they often can be reached through publications of the American Association of Retired Persons, or by way of senior citizens' clubs.

• **Young Parents.** Increasingly, both parents already work. But there are still some parents, usually mothers, at home with young children. These people might be candidates for part-time or seasonal work. They can be reached through ads in suburban papers, by direct mail to names on a list from a group such as a parents' organization or through messages along with your company's monthly statements.

• **Persons with Disabilities.** The physically handicapped may do as well as or better than others at jobs requiring intellectual skills. A blind person may be the best candidate for a telephone job. Deaf people often have superior manual or computational skills. Public agencies and organizations for the handicapped are ways to locate such people.

• **Members of Minority Groups.** Unemployment is still high among minority groups, particularly in inner-city neighborhoods. But about three-fourths of new service jobs are in the suburbs. Transportation, perhaps shared by several employers in the same suburban mall, might be the key. Recruiting can begin at public agencies, at training programs and schools or at organizations, such as the Urban League, that promote minority employment opportunities.

Keith Robinson, director of personnel for Mervyn's, a California-based chain of family department stores in 13 states, says employers should analyze their present operations before they step up recruiting.

"If you are having trouble hiring or keeping employees, I would look at three things," says Robinson.

• "First, is your compensation fair?

• "Second, do your management people treat employees with dignity—do they give recognition? Do you inculcate the idea that your company is a great place to work?

• "Third, do you elicit the support of your existing employees to bring in new employees?

"After you have done that, then do the things like advertising, using posters and bag stuffers, visiting schools and community groups and all the other ways of making contact with potential employees. But if you just do the last thing and haven't done the first three, it's a waste of time. You'll never have a good work force."

in full-time jobs, Robinson says, "we want the part-timers, people who would like to work three evenings a week or all day on Saturday."

Robinson says the company is trying to build a productive staff by "reacting to workers' needs."

Because its recruits may lack previous retail experience, Mervyn's gives new employees basic training in serving customers. They learn how to identify customer expectations, handle problems and be courteous.

Such training is increasingly important as companies fill vacant jobs from new sources. Walter Runge's long-haul trucking company, which serves 48 states from its base in St. James, Minn., is too small to give formal instruction, but Runge provides on-the-job training. He has 26 full-time employees, although he says "it seems like I'm always short this year."

Runge explains that "most of my long-haul drivers are older guys, and eventually they get tired of living on the road; they want a job that keeps them in town. So I have to take on young ones and train them. First I let them do short hauls, like carrying grain 40 to 100 miles. Then I send them out with experienced guys for a while, to learn the ropes. You can't let a new driver run overnights by himself until he has some experience."

In Boston, Marriott hotels have given away pencils at high-school games and have paid for posters on public transit saying "Join the Marriott Team!" New employees get a hotel tour first, then are assigned to work under the eye of experienced employees. A new food server, for example, is not allowed into the dining room by himself but helps other waiters. A front-desk trainee wears a button that reads, "I'm new, but I'm trying."

The unreadiness of many job applicants concerns employers like Marriott's Guest, who says: "We and other businesses are working with educators to see if the schools can produce people with skills we can use. In the meantime, you'll see employers themselves working on remedial training, teaching reading skills, for example." (For more on the role of business in education, see the Special Report beginning on Page 37.)

As businesses dip deeper into the shrinking pool of young people to fill entry-level jobs, many are dismayed at the lack of basic reading and reasoning skills they find in candidates. In one sample of 20-year-olds, three out of five could not read a map or add a lunch bill.

One fourth of all students who enter high school drop out before graduation. The dropout rate is about 40 percent for black students and about 50 percent for Hispanics. In many cases, drug use, teen pregnancy and illiteracy multiply the odds that such young people will be unable to find jobs. Such problems not only hinder achievement in high school but also deprive young people of the educational roots they'll need to grow and survive in a changing workplace. The skills that will be demanded of new workers in the future will be higher than those required today.

At least half a million new people will

"Everyone . . . Will Have To Be Retrained Three Or Four Times"

Shifting demographics and the dwindling number of young people are not the only workplace changes facing U.S. business.

The nature of work itself is being transformed, says business consultant Jeffrey Hallett of Alexandria, Va., in a new book, *Worklife Visions*.

His forecast of what work will be like in the 1990s and into the 21st century was published recently by the American Society for Personnel Administration.

"It has been estimated that 50 percent of the actual jobs being performed in 1987 did not exist in 1967," writes Hallett. This pace of change means that "by 2007 essentially all of the work will be new."

The reason for such rapid evolution, he says, is the emergence of the information economy. In this economy, work and organizations have to change as new information and knowledge become available, and the amount of information doubles every two and a half years. This means, says Hallett, that "90 percent of the information available to workers in 2007 will be created after 1987."

Our educational system ought to be preparing students to deal with such rapid workplace changes, Hallett says, but it is failing badly. Too many students are dropping out; too many emerge from school with little knowledge of the past and less preparation for the future; too many have not learned how to think for themselves.

Yet with the advance of the information age, he says, we are seeing "the emergence of the need for lifelong learning."

In the future, Hallett says, "everyone we hire will have to be retrained three or four times during a normal employment period. The alternative, of course, is constant turnover, replacing the work force every five years or so."

Preparing workers for these work changes will involve parents, educators and especially managers, Hallett says.

"For managers the task is simple," says Hallett. "They simply must honor, respect and care for their employees. . . . It is clear, however, that there are no workers who want or deserve to be treated like just another part of the machine."

Hallett says Japanese management clearly illustrates how a company culture that cares about people is behind excellence of products.

"There is no mystery to the success of Japan," he says. "They carry the concern for people, for harmony and for excellence with them. They pay attention to employees and customers, and they care about the quality of the response. That is why they generate such extraordinary productivity from their facilities whether they have Japanese, American or Hispanic workers."

Hallett asks how deeply U.S. management cares about its employees:

"We either believe that our success depends on our people or we don't. We either believe that quality and excellence and productivity come from individual effort or we don't. We either care about people and what they are doing and our involvement with them, enough to leave our offices and be with them, or we don't."

Managers who respond affirmatively to those concerns will be in a much stronger position to deal with the historic changes under way in the workplace, Hallett says.

PHOTO: T. MICHAEL KEZA

High-school students receive training at Jeffersontown Vocational School in Louisville, Ky., one of seven cities where schools, government and business strive together to reduce dropout rates and help young people acquire the basic skills for succeeding in the job market.

come to the United States each year until 2000 or beyond. Many are unskilled, cannot speak English fluently and lack transportation to job sites. But community colleges and libraries that offer programs in English as a second language can lead employers to highly motivated students.

"Education is a bigger factor in productivity growth than increased capital, economies of scale or better allocations of resources," says David Kearns, chairman of Xerox Corporation.

Because a nation that needs workers so keenly can ill afford an underclass of unemployables, the National Alliance of Business has embarked on a campaign to stimulate business support of educational improvements. Called "The Fourth R: Workforce Readiness," the campaign is promoting business-government-school partnerships in seven cities. The plan seeks to repeat the accomplishments of the Boston Compact, a successful effort launched by businesses in Boston several years ago to reduce a public-school dropout rate that had reached 60 percent.

The seven cities are Albuquerque, N.M.; Cincinnati; Indianapolis; Louisville, Ky.; Memphis; San Diego; and Seattle. Each has a unique situation and each is developing its own program.

In Louisville, for example, program managers comb through high-school rosters to find the students they feel are most "at risk." These include not only the low achievers but also the economically disadvantaged, pregnant girls, and children from welfare homes. The managers provide counseling and remedial instruction, teach job skills and help the students find summer employment or part-time work. (And they'll pull a student off a job if school performance falters.) Moreover, the managers continue working with the students after graduation, to help them get jobs or go on for further schooling.

"If the problem is society's in general," says National Alliance President William H. Kohlberg, "it is also a specific problem for business. Inadequately prepared workers are not productive workers; low productivity and low economic growth will seriously jeopardize business' ability to compete in world markets.

"Furthermore, unemployed or underemployed workers are a poor market for business' goods and services. Our nation cannot leave to chance the resolution of the massive societal and economic problems facing us in the next 10 to 15 years."

Pat Choate, director of policy analysis for TRW, Inc., criticizes the poor training performance of the states' federally funded employment services, and he says their shortcomings hurt small business the most.

Most small businesses, he points out, "don't have training departments, so they must rely on the public sector, which they pay taxes for, to get that training." But except for the successful Job Training Partnership Act program of recent years, he says, "small businesses are not getting the quality and quantity of job training that they need to operate their businesses," either from the state employment services or from vocational and technical schools and junior colleges.

The growing mismatch between business' needs and workers' preparedness was a major concern of former Labor Secretary William Brock. He ordered a study by the Hudson Institute called "Workforce 2000: Work and Workers for the 21st Century," which was completed last summer. The study says the nation's economic growth depends on increased productivity, particularly in the expanding service industries. Achieving that higher level of productivity will require better education and job training for a work force that will contain more women, minorities and immigrants. The challenge, it says, will be to:

- Reconcile the conflicting needs of women, work and families.
- Integrate black, Hispanic and other minority workers into the economy.
- Stimulate balanced world growth, instead of concentrating on the U.S. share of world trade.
- Maintain an aging work force's adaptability and willingness to learn.

Says Brock: "The job-creation capability of this country is so awesome that we have in the next seven or eight years a chance to deal with societal problems, such as youth unemployment and minority unemployment, that we have failed to deal with in the last 50 years.

"The job demand is going to be enormous. The demand for people with skills is going to be huge.

"And the question is, do we have in place the systems, the processes, to provide those skills? And the answer is really no."

Brock said that in addition to improvements in public education, business will have to increase the $40 billion a year it already spends on training and retraining to develop some of the skills it will need in the future.

Chuck Fuller of the Rye Telephone Company in Colorado City believes in training. His small company has installers, repairmen, drivers, office help—many of whom Fuller trained himself. Echoing the view of many employers, he says: "Everybody around here tells you it's hard to find good people. I say you can always find a good person. What's hard is training them to do what you want them to do." NB

To order reprints of this article, see page 84.

MANAGING YOUR BUSINESS

Investing: After The Fall

What do you do now to salvage that investment portfolio?

By Walter Wingo

Ever since that Monday last October when stock prices plunged, investors have been rearranging their battered portfolios to get the most out of what's left of their wealth.

What now are the best and worst types of personal holdings for conservative, generally well-heeled investors such as those who read *Nation's Business*? We asked professional investment advisers and planners. Their general answers for investors still seeking a balance between growth and income:

Stick with blue chips, but get out of riskier stocks, gold, junk bonds and limited partnerships in real estate. Build up cash. And be cautious.

A composite of the experts' opinions calls for the following portfolio mix:

- Stocks, mostly high-grade, 37.3 percent of the total invested;
- Money-market funds, 19.6 percent;
- Corporate bonds, 13.6 percent;
- Three-month Treasury bills, 10 percent;
- Government bonds, 7.7 percent;
- Two-to-three-year Treasury notes, 5 percent;
- Precious metals, 3.6 percent;
- Real estate, 2.2 percent;
- Single-premium annuities, 1 percent.

None of the analysts gave exactly that breakdown, of course. In fact, their suggestions on particulars vary widely and often conflict. Most would agree, though, with an observation by Jay Goldinger, who specializes in tax-advantaged investments at Cantor, Fitzgerald & Company in Beverly Hills, Calif.: "There's not a smorgasbord of great investments out there."

He and many other consultants say the hardest virtue for the investor over the next six months to a year will be patience. More wild gyrations of financial markets could be coming.

"Don't panic," says Robert LoPinto, vice president, Consulting Services Division of EF Hutton & Company Inc., in Washington. "Focus on the long term, diversify and put your investment objectives in writing."

What should those objectives be? Sharon B. Webster, economist and assistant vice president at Johnston, Lemon & Company, a regional brokerage headquartered in Washington, says, "One of the most successful investors and money managers of all time, Warren Buffett, has expressed my sentiments very well. The first rule is, 'Don't lose the principal.'

"And the second rule is, 'Don't forget the first rule.' "

Walter Wingo is a free-lance writer in Arlington, Va.

PHOTO: TERRY JOHN

Jay Goldinger of Cantor, Fitzgerald in Beverly Hills, Calif., sees no "smorgasbord of great investments" now, and he recommends patience while financial markets settle down.

The best way to preserve principal is to curtail margin accounts with brokers, according to Stephen Z. Monheim, executive vice president and director of retail product distribution for Butcher & Singer, a regional investment-banking firm headquartered in Philadelphia. "If you are out on the limb," he says, "get back into the tree trunk."

Grace Keeney Fey, vice president and portfolio manager for Investment Management Associates, in Boston, is among many analysts who see an improving backdrop for the stock market. She expects interest rates will level out and go down a bit. She does not see a recession soon.

Credit easing by the Federal Reserve Board will tend to hold down interest rates, cushioning the impact of recent stock-market declines, adds Dave Jones, senior financial adviser for Aubrey G. Lanston Company, Inc., in New York.

"With the Fed pumping money into the system, we appear to have a pretty good opportunity in quality stocks," says Brian Luettke, market analyst at Piper, Jaffray and Hopwood, Inc., Minneapolis. Since blue-chip stocks generally increase in value when interest rates decline, Luettke says that "if investors are willing to hold these stocks for a year or more, it couldn't be a more ideal situation."

Goldinger foresees a rally in the dollar on foreign exchanges in 6 to 18 months. That will create a new surge in the U.S. stock market and, to a lesser degree, in the bond market, he says.

"Foreign investors, notably the Japanese, will shift investment strategies when the dollar-yen ratio hits bottom," Goldinger explains, "and fresh funds will start to flow into U.S. equities, namely blue-chip issues the Japanese are familiar with."

Michael Burke, newsletter editor for Investors Intelligence, Inc., of New Rochelle, N.Y., thinks the best investment is in stocks—mainly in manufacturing—that respond to the business cycles. "Many are selling at a third or so of their highs of the past few years," he says.

Financial consultant LoPinto recommends dividend-paying stocks of corporations that have total capitalization of more than $100 million.

Look for companies with low book values, carrying price-earnings ratios ranging from 6 to 8, advises Charles H. Brandes, president of Brandes Investment Counsel, Inc., in San Diego.

Brandes points to some New England thrifts as examples of firms with "tremendous amounts of equity capital." Many savings banks and savings and loan associations that converted in 1986 from mutual companies to stock companies are sitting on mounds of cash and

Economist Sharon B. Webster of Johnston, Lemon, in Washington, abides by money manager Warren Buffett's principle: "Don't lose the principal."

PHOTO TERESA ZABALA

equities. Their prices have dropped along with the broad market.

Robert J. Farrell, chief market analyst for Merrill Lynch & Company, Inc., in New York, sees good bargains in stocks of technical companies, including machinery manufacturers. Down the street at Bear Stearns & Company, Peter Canelo, the chief investment strategist, likes the looks of utilities, property casualty companies and food-processing firms. "People have to eat and have lights," Canelo reasons.

C.H. Kaplan, publisher of *Special Situations Newsletters*, in New York, scrutinizes the over-the-counter market for "loaded laggards, sleeping beauties." He recommends "pink-sheet companies," unlisted, semi-private companies not in computerized stock-picking programs. "I look for neglected companies that have not participated in the recent boom," he says.

Analysts also mention telecommunications and pharmaceuticals among business lines with bright investment prospects. Much larger, unfortunately, is their list of industries that they would shun.

The worst investment, according to Monheim, would be "an aggressive stock position in speculative-type companies that are consumer-oriented and have a high debt on their balance sheets." He thinks consumers have lost some confidence and are going to hold back on spending for major items such as homes, cars, boats and refrigerators.

Burke would avoid stocks that have gone up fivefold or more in price in the past five years. "They are very good companies, but the dividend yields are so low that they are substantially overvalued," he says.

The worst investments, Canelo thinks, are "economically sensitive stocks," which at the start of last fall seemed to be the best vehicles for investors' money. He cites firms in aluminum, computers and capital goods.

Foreign stocks? "Forget it," Canelo advises. "Those markets aren't doing any better than ours." Brandes says the worst investment is "anything in the Japanese stock market," which he considers far overvalued.

Some analysts still say that about stocks on Wall Street.

"No one should be heavy, heavy into the stock market," states James U. Blanchard, president of Blanchard & Company, a New Orleans-based firm specializing in financial services and precious metals.

"We had a five-year bull market," notes Jones of Aubrey G. Lanston. "It is literally going to take years to put the pieces back together again in this market."

Whatever money goes into the stock market is best put in mutual funds, investment strategist Canelo says. "Let them worry about buying and selling. This is likely to be a very difficult market even for professionals."

But Mary Malgoire, financial adviser at Malgoire Drucker, Inc., in Bethesda, Md., strongly cautions against picking a "very aggressive" and leveraged stock fund. "That's a dangerous position to be in in this market," she says. "I'd rather forfeit the kind of return a fund like that can give you and know that I will not have tremendous losses in my portfolio."

Adds Brandes of Brandes Investment Counsel: "The traditional equity markets have had their best day in the sun. I think there is still some gain to be had there, but I would be looking to diversify out of paper assets in general and into cash and precious metals."

Many investment planners share Brandes' enthusiasm for cash equivalents, but not for precious metals.

"With the uncertainty that prevails right now, having some liquidity is very important," explains Fey of Investment Management Associates.

"The best type of investment in the next 6 to 12 months will be dollar-denominated debt securities," Goldinger of Cantor, Fitzgerald contends. "The dollar will be the strongest currency, and the best place to be will be in short-term debt instruments that are government-backed."

Financial adviser Jones favors government securities having maturities of two to five years. Other investment planners prefer money-market accounts invested in Treasury bills, certificates of deposit or foreign currencies, especially the Swiss franc, the British pound or the Deutschmark.

While all financial advisers we interviewed agree that cash equivalents should make up a significant part of an ideal portfolio, they differ over whether bonds should be there.

Monheim of Butcher & Singer believes investing in bonds is at present "the best move." He expects annual yields on long-term bonds in the next few months will range between 9.25 and 10 percent.

He recommends government bonds, then municipal bonds followed by corporate bonds of the highest quality. Investors in higher tax brackets would have larger portions of the first two types of bonds.

Monheim also likes convertible bonds of companies with "clean balance sheets" and low debt-to-equity ratios. Convertible bonds can be exchanged for shares of the company's common stock or other securities.

LoPinto of EF Hutton agrees that convertible bonds are wise investments now. He says they are "a way of participating in the upside while limiting your downside risk."

Canelo of Bear Stearns considers intermediate-term government bonds with maturities of three to seven years as "the best possible investment right now, without question." He says such bonds represent the most secure refuge from the stock market. Not only are government bonds paying "pretty good yields," Canelo adds, but they also will generate "spectacular capital gains" through next spring.

Several analysts recommend adding zero-coupon bonds—securities that accumulate interest until they mature—to municipal-bond portfolios of investors who can wait to collect their interest.

Ginnie Maes—federally insured mortgages packaged by the Government National Mortgage Association—

Avoid limited partnerships in real estate and "very aggressive," leveraged stock funds, says Mary Malgoire, financial adviser at Malgoire Drucker, in Bethesda, Md.

PHOTO: JAMES MCGOON

draw raves from many investment planners. Although Ginnie Maes pay about a percentage point more than Treasury bonds in interest, they are just as safe, experts contend. They can be bought and sold easily.

But portfolio manager Fey advises investors to wait to see what happens in the housing market before grabbing up Ginnie Maes.

Fey severely criticizes conventional long-term bonds. Both she and Blanchard of Blanchard & Company consider long-term bonds the worst investment now.

"We're heading into some very uncertain times in '88 and '89," Blanchard maintains. "I think you should be very, very limited in terms of government-guaranteed cash. You should be in Treasury bills and maybe some government bonds, but certainly not long-term bonds.

"We might see moderate Latin American-type inflation of 15 or 20 percent in the United States. In that environment, bonds are a terrible investment."

Why a resurgence in inflation? Blanchard points to the federal budget deficit, the trade gap, the threat of protectionism and "the banking crisis." He says the Federal Reserve is "going to be throwing money at those problems with both hands."

Brandes declares he would never buy a long-term bond unless he were "absolutely sure" interest rates were going to go down.

Not one of the investment planners interviewed said anything good about junk bonds, securities that fail to meet the safety criteria of rating services. The experts say most investors these days should concentrate on security and liquidity. Junk bonds fail on both counts.

Brandes says that in the current financial climate, investors should avoid "anything to do with speculating in options or commodities or futures."

Goldinger agrees and expands that to include all "inflationary hedges," including gold and silver.

Unlike Blanchard, Goldinger expects no inflation problems. In fact, he says, "we are definitely in a deflationary era again."

Investment strategist Canelo says that gold, because of its "extraordinary volatility," warrants only a small share in portfolios.

"Precious metals relate more to fear and greed than to fundamentals," LoPinto claims. He counsels investors to stay out of gold- and silver-mining stocks and bullion.

Blanchard, who specializes in precious metals, says the opposite. He would cram portfolios with cash and precious metals. He considers buying coins the best way to invest in precious metals for those who are not multimillionaires. He says silver and gold coins can show even more dramatic gains than bullion.

"In the next 24 months," Blanchard says, "we'll see gold well over $1,000 an ounce and silver well over $30 or $40. I think metals are very conservative investments. They don't have the huge volatility and overpriced nature that many stocks have."

Real estate is the worst investment in the opinion of Kaplan of *Special Situations Newsletters*. He points to Manhattan condominiums bearing "prices that no longer reflect any rationality whatsoever."

He predicts that real estate will soon "follow the Dow Jones down," because people will have less discretionary income. He foresees lower rentals, both residential and commercial, and a decline in housing generally.

Canelo, too, places real estate low among investment prospects. "I'm not gloom-and-doom about real estate," he says, "but I think many areas of the country are likely to be impacted by the problems of the financial arena. In New York, Chicago and the West Coast, many in the financial community will be thinking of selling or perhaps be forced to sell property."

Financial adviser Malgoire considers a limited partnership in real estate as the worst of investments. None of the planners defended these arrangements, which recently were among the most torrid investment vehicles. Experts say limited partners are too remote from control over their money just when investors need flexibility.

It would be better, says Fey, to join in a real-estate investment trust (REIT), which is an easily tradable investment in a real-estate project. She notes that some REITs are yielding 8 to 8.5 percent annually. She advises searching for a REIT with a strong portfolio, one that has owned the properties a long time.

"A lot of REITs are in shopping centers, and those are O.K. as long as they're not heavily into commercial office space," Fey maintains. "Now, with the tax-law changes, syndicators are out of the market, and there are some attractive properties that these REITs could buy if they've got cash."

Monheim recommends a conservative approach to REIT investments, selecting only those trusts that have long track records.

Monheim also puts in a good word for annuity investments in that they are immune to fluctuations in the stock market. He points out that both single-premium deferred annuities and fixed annuities have tax advantages, and that borrow-back features give them a degree of liquidity.

"Above all, know what you're investing in," Fey advises. "The thing I don't like about the current situation is that people are investing without understanding the risk. Don't ride with the herd. Making money, investing money, is not easy. It should be a careful program built with thoughtful consideration."

Blanchard, from his office in New Orleans, observes that brokers fail to mention one real opportunity: "I strongly believe that the best investment of all is your own business. If you truly have faith in its growth, there's where you should be putting your time and your profits. There's where you will reap your biggest success." NB

To order reprints of this article, see page 84.

MANAGING YOUR BUSINESS

More Tax Changes In '88

Small businesses must adjust not only to the 1986 tax-reform law but also to tax-code changes approved recently by Congress.

By Joan C. Szabo

The new year brings additional tax changes for small firms trying to adjust to the sweeping Tax Reform Act of 1986. Even though most major provisions of the law already are in place, a few remaining changes take effect in 1988.

In addition, more tax modifications are on the way as a result of a two-year, $23 billion tax hike recently passed by Congress. The measure will raise $9 billion in taxes in fiscal 1988, which began last October 1. Congressional sources say there are more than 40 tax-code changes in the legislation, which is part of the budget agreement aimed at reducing the federal deficit by $30 billion.

Rates And Brackets. Under tax reform, two of the most significant changes taking effect in 1988 are lower tax rates and a reduction in the number of individual tax brackets from 15 to three. In 1987—a transition year—there were five brackets.

Even though there are two official brackets for individuals (15 and 28 percent), the marginal rate can go as high as 33 percent on joint returns reporting taxable income above $71,900 and single-taxpayer returns above $43,150.

The 33 percent rate applies to taxable income up to $149,250 on joint returns and single-taxpayer returns up to $89,560. It applies above those levels to the point at which taxable income exceeds the total of $149,250 plus $10,920 times the number of exemptions claimed on joint returns, and the total of $89,560 plus $10,920 times the number of exemptions on single returns. The rate then drops to 28 percent. (The marginal tax rate was 38.5 percent in 1987 and 50 percent before tax reform was enacted.)

Individual tax rates affect small firms that have elected S-corporation status as well as a number of self-employed individuals. "With the lowest rates in several years, most individuals will pay a top rate of 28 percent," says Neil Becourtney, tax supervisor for the New York office of the accounting firm of Mann, Judd, Landau.

For corporations, the drop is from a top rate of 46 percent to 34 percent, with two lower rates for companies whose incomes are under $75,000.

PHOTO: T. MICHAEL KEZA

Accountant Albert B. Ellentuck says election-year sensitivities should keep Congress from raising tax rates, but 1989 could bring surprises.

Many experts warn that tax rates could start to go up in subsequent years. Says Albert B. Ellentuck with the accounting firm of Laventhol & Horwath, "Congress isn't likely to increase the rates in 1988 because it is an election year, but 1989 tax rates could be higher."

Capital Gains. An additional major tax change in 1988 affects capital gains. The preferential tax treatment of capital gains is eliminated, and gains will be treated and taxed as ordinary income. This means the tax could be as high as 33 percent for some individuals. In 1987, a special transition rule placed a tax ceiling of 28 percent on long-term gains.

Doctrine Repealed. "Another significant change that will affect small companies this year is the change in the 'General Utilities Doctrine,'" says accountant Saundra A. Lewis, whose clients are mainly small-business people. Lewis runs a Nashville accounting firm that bears her name.

Tax reform repealed the doctrine, which allowed small-business owners to sell their companies with minimal tax consequences, she notes.

In the past, when a firm was sold, shareholders who received the proceeds were responsible for paying the tax. The corporation itself paid none. Now the seller pays two taxes, one at the corporate level on the gain from the asset sale, the other at the individual-stockholder level when the proceeds are distributed. But firms valued at less than $5 million have the rest of this year to sell a company without being affected by the doctrine's repeal.

Latest Changes. Small firms also will be affected by some of the new tax changes recently enacted by Congress as part of the deficit-reduction package. For example, the measure freezes the top 1987 estate-tax rate of 55 percent for five years. It was scheduled to drop to 50 percent in 1988 but now will do so in 1993. The legislation also modifies the rules for corporate estimated-tax payments to generally require accelerated estimated tax payments from corporations.

Under the change, graduated payments for personal-service companies will be eliminated, and all personal-service companies (including corporations made up of lawyers, doctors, accountants or architects) will pay a flat 34 percent corporate rate.

Two Modifications. Small companies will benefit from two of the recent modifications to the 1986 tax-reform law. The first change will allow professional-service corporations, partnerships and S corporations to elect to pay their taxes on a fiscal-year basis rather than having to switch to a calendar year as required by tax reform.

Firms that elect to remain on a fiscal year would be required to pay estimated taxes equal to the amount of revenue the government would lose as a result of their staying on a fiscal year.

The second change will retain the installment-sales method of accounting for the sale of small businesses and for "casual sales" of real estate and investment property on credit. This allows taxpayers to defer paying taxes on gains from their sales until payments are received. However, the change eliminates the installment-sales method for large dealers in personal property.

Says accountant Ellentuck, "We are working under a complex tax law, and in general the modifications don't make it any easier." NB

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2. Your business could financially survive the death or disability of a key employee.

☐ **Yes** ☐ **No** ☐ **Not Sure**

3. Your family is financially protected should your death or disability cause a loss of income from the business.

☐ **Yes** ☐ **No** ☐ **Not Sure**

4. Your key employees find it hard to leave because of your executive compensation plans.

☐ **Yes** ☐ **No** ☐ **Not Sure**

5. You're getting the best pension and disability coverage for your employees at the best possible price.

☐ **Yes** ☐ **No** ☐ **Not Sure**

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ABOVE AND BEYOND℠

MANAGING YOUR BUSINESS

The Real Costs Of Benefits

From Social Security and health insurance to vacations and rest breaks, perks for workers cost more than ever.

By Albert G. Holzinger

It's time to test your employee-benefits knowledge. Pencils ready? Here's the first and most important question: How much does it *really* cost your company to employ someone whose annual wage or salary is $26,165?

If your benefits package is typical, the cost of employing someone who received that median income for 1986—the latest year for which data are available—was $6,748 more than the amount on that employee's W-2 form.

And a typical median-income employee received the equivalent of $3,535 *more* for vacations, holidays, sick and parental leave, and other time spent away from the job, according to a survey conducted by the U.S. Chamber of Commerce.

At $10,283, this was the most costly package of perks ever reported in the Chamber's annual survey of benefits for hourly workers. The survey has been conducted since 1947. Benefits of salaried employees were surveyed for the first time in 1986.

The Consolidated Budget Reconciliation Act of 1985 (COBRA) requires businesses with health-care plans to make coverage available to former employees and their families for a limited time.

Costs of complying with COBRA, providing health insurance to retirees and administering pension plans also were surveyed for the first time in the newly published 1986 research.

These changes in method expanded the survey base and made benefits surveyed by the Chamber more representative of benefits actually provided by employers. The Chamber calculated that newly surveyed salaries and benefits increased costs by 1 percent of payroll.

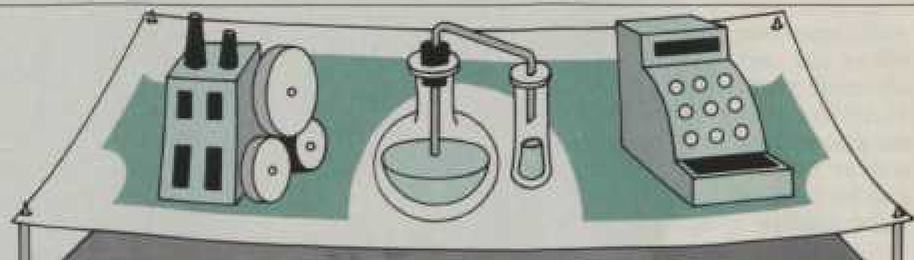
The table in the next column provides the calculation to allow comparison of 1986 findings with data collected from previous surveys.

So far this decade, benefits costs have risen 51.5 percent, while average annual earnings have increased 34.8 percent. In 1986, when hourly employees' earnings went up 2.2 percent from the previous year, benefits rose 3.7 percent.

Benefits for all workers in the private and public sectors—not just workers covered by the survey—totaled $741.6 billion in 1986, the Chamber estimated, while earnings totaled $2.09 trillion.

The surveys cover benefits received by workers throughout most of the private sector—agriculture is the principal exception—and by some government employees. The survey for 1986 had 833 respondents. Eight percent of those who replied had fewer than 100 employees, 23 percent had 100 to 500 employees and 20 percent had more than 5,000 employees.

Costs for wages paid for time not on the job—including vacations, holidays, sick and parental leave, rest breaks, travel to the job and preparing to



Average Benefits Costs, 1986

	Per Employee, Per Year
All Industries	**$10,283**
Manufacturing Industries	**12,035**
Food, beverages and tobacco	7,580
Textile products and apparel	4,743
Pulp, paper, lumber and furniture	9,922
Printing and publishing	6,919
Chemicals and allied products	11,287
Petroleum	11,755
Rubber, leather and plastic	13,450
Stone, clay and glass	7,748
Primary metals	13,402
Fabricated metals (excluding machinery and transportation equipment)	8,497
Machinery (excluding electrical)	10,461
Electrical machinery, equipment and supplies	9,380
Instruments and miscellaneous manufacturing	10,403
Nonmanufacturing Industries	**8,917**
Public utilities	12,712
Department stores	5,102
Trade (wholesale and retail other than department stores)	6,107
Banks, finance companies and trust companies	7,153
Insurance companies	8,315
Hospitals	7,172
Miscellaneous nonmanufacturing	9,494

CHARTS: WARREN ISENSEE

Year	Average benefits per employee	Percentage increase over previous year
1980	36.6% of payroll	9.4%
1981	37.1	8.9
1982	37.3	8.5
1983	36.7	5.5
1984	36.6	3.4
1985	37.7	4.1
1986*	38.3	3.7

*Old method

Panasonic introduces the first personal facsimile and answering system in one. And that's only half the story.

If you were about to settle for a fax machine that's just a fax machine, it's a good thing you came across this advertisement for the new Panasonic KX-F115 personal facsimile.

For starters, it's not just a fax machine. It's also an answering system with Beeperless Remote Control that allows you to access any of ten different answering machine functions from any push-button tone phone. Functions like outgoing message record, message playback, rewind, skip and marker message. You can also record phone conversations* for later reference or leave instructions for a colleague or secretary. But that's not all....

It's a fully integrated telephone system.

It has automatic telephone/facsimile switching that allows you to put someone on hold, send a fax and then return to the conversation without redialing. There's also a hands-free answerback speakerphone with a "mute" button and automatic call hunting. And it does all these plus many more functions on a single phone line. But there's more....

It also has a copier function.

In addition to all these other advanced features, this sophisticated system can also make copies.

And if being the first facsimile machine with an answering system, integrated telephone system and built-in copier function isn't enough, you will be happy to know it's also a Panasonic.

The new Panasonic KX-F115 personal facsimile. Now aren't you glad you read this ad?

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*Many states have imposed regulations on the manner in which two-way telephone conversations may be recorded. Consult your local public utility agency before using this feature.

work—were incurred by 75 to 85 percent of survey respondents.

Legally required payments such as Social Security as well as unemployment and workers' compensation, from which few employers are exempt, came to an average $2,333 per employee in 1986. Medical, dental and vision care along with disability and life-insurance payments by employers averaged $2,311 in 1986. These benefits were almost universal. Other categories of benefits surveyed in 1986 were retirement and savings-plan contributions and miscellaneous benefits, including discounts on goods and services purchased from employers, free meals, continuing education and child care.

While the survey is useful for measuring individual benefits packages, evaluations must be made carefully. Benefits and their costs varied widely.

For example, benefits cost manufacturers an average $12,035 per employee in 1986 but cost nonmanufacturers only $8,917. Within these sectors, transportation-equipment manufacturers paid a high of $15,448 per employee, while makers of textile products and apparel paid $4,743. In the nonmanufacturing sector, public-utilities companies paid a high of $12,712 per worker for 1986 benefits, while department stores paid a low of $5,102.

Variations such as these can be attributed to many factors. In general, manufacturing-nonmanufacturing cost differences are attributable to differences in experience-rated health-insurance premiums. Premiums of some manufacturing firms exceeded $3,000 per employee in 1986, nearly three times the cost to most employers in other sectors of the economy.

Differences among industries within the manufacturing and nonmanufacturing sectors are closely related to the nature and economic vitality of those industries.

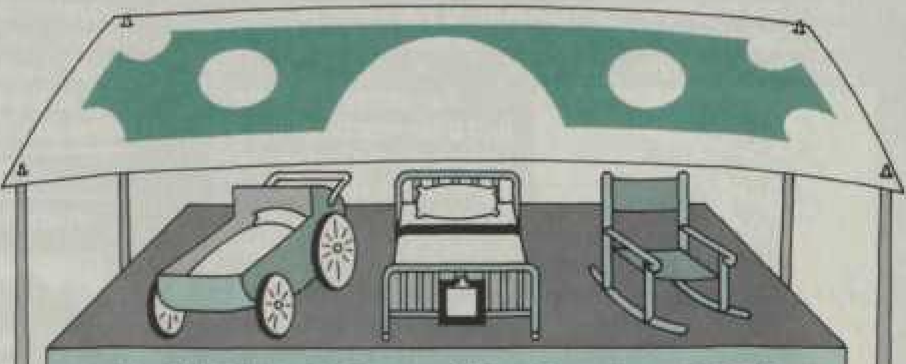
For example, highly competitive industries—notably retailing and industries under siege from foreign competitors, including textile manufacturing—offer relatively low levels of benefits.

Generally, industries with high wage levels have high benefit levels. The reasons are twofold: Most benefits—paid leave is the chief exception—are not taxable, and high-paid employees prefer such compensation to even higher, but taxable, wages. Lower-paid employees struggling to pay monthly bills prefer cash income to deferred compensation such as pensions and other benefits.

However, benefits payments in 1986 were remarkably consistent from one region to another. The only exception was the East North Central region, where costs were about one-third higher than in other parts of the country. Researchers who conducted the survey attributed this to the Rust Belt's large number of older firms, which generally have higher costs for retiree health insurance.

One key finding of the survey will be used in the business battle against the strong drive in Congress to mandate the type of benefits employers must provide. The Chamber says it will alert congressional supporters of such legislation to the survey's conclusion that the value of employee-benefits packages is directly proportional to the size of the company. On average, firms with more than 5,000 employees spent nearly 40 percent of payroll for benefits in 1986, while firms with 100 or fewer employees spent about 33 percent.

Smaller companies provide fewer benefits because they cannot afford more, the Chamber concludes, and legislation that would force them to incur new benefits costs could lead to bankruptcies and job losses.



Individual Benefits Costs, 1986

	Per Employee, Per Year
Old-age, survivors, disability and health insurance	$1,588
Unemployment compensation	258
Workers' compensation	277
State sickness benefits insurance	211
Retirement and savings plans contributions	1,762
Life insurance and death benefits	127
Medical insurance (current employees)	1,604
Medical insurance (retirees)	157
Short-term disability insurance	139
Long-term or salary-continuation insurance	50
Dental insurance	148
Other medically related payments	86
Paid rest periods (coffee and lunch breaks, etc.)	879
Paid vacations, holidays and sick leave	2,608
Maternity and parental leave	48
Discounts on goods and services	63
Meals furnished	26
Education expenditures	41
Child care	159
Miscellaneous	53
Total Benefits Costs	**10,283**

For More Information

Employee Benefits, 1986, a 36-page report, costs $20 a copy. It includes a special section on taxation of employee benefits. The section is aimed at helping employers better understand how rapidly changing tax laws complicate the planning of benefits packages.

To order, write to Publications Fulfillment, U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062, or call (301) 468-5128. NB

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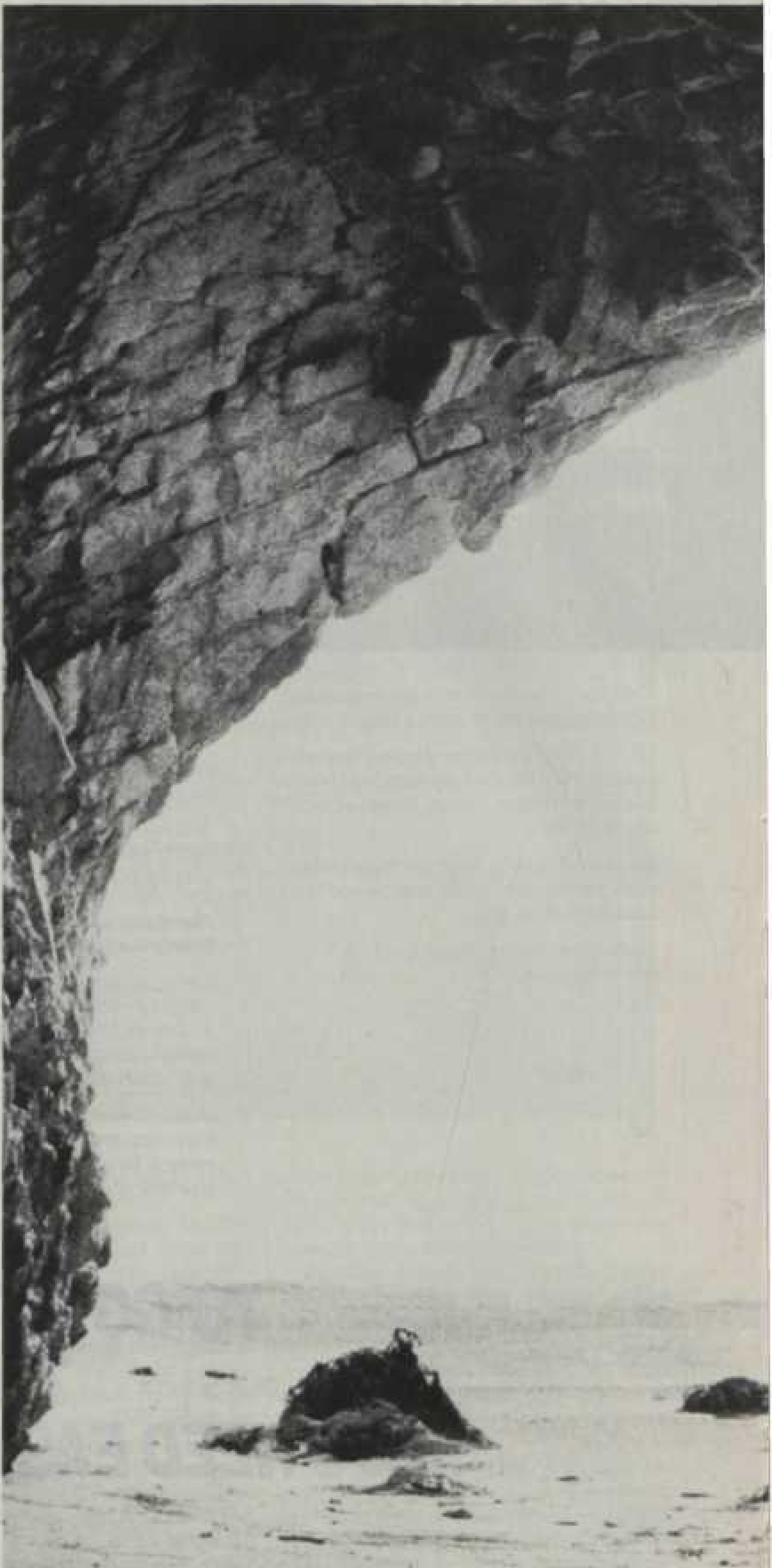

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R.J., Rochester, Mich.

"No," says Donald R. Hinst, president of the Society of American Inventors. He suggests sending your plans, blueprints, pictures or a description to the U.S. Patent and Trademark Office. Through its Disclosure Document program, your idea will be credited, dated and kept on file for two years.

"This does not preclude a patent," says Hinst, but in case of a problem, "you will have a documented date of invention for legal action."

For information about the Disclosure Document program, call or write to the Patent and Trademark Office, U.S. Department of Commerce, 2021 Jefferson Davis Highway, Arlington, Va. 20231; (703) 557-3341.

The Society of American Inventors, a nonprofit membership organization for inventors, also offers free publications. Call or write the Society: 505 E. Jackson Street, Suite 204, Tampa, Fla., 33602; (800) 443-7892.

Looking For B&B Advice

I am interested in starting a bed-and-breakfast directory and assistance program in my area. Where can I get more information?
J.G., Lawrenceville, Ga.

Send a letter detailing your plans to Sarah Sonke, director of the American Bed and Breakfast Association, 16 Village Green, Suite 203, Crofton, Md. 21114. She will respond with some advice, a list of publications you may want to read and a free issue of the association's newsletter, which features industry trends.

First Things First

I would like to buy a Domino's Pizza franchise. Where can I get more information?
A.P., Passaic, N.J.

Domino's will sell a franchise only to a person who has managed an individual

ILLUSTRATION: WILLIAM COULTER

franchise for a year to 18 months. You may apply for management training at a local franchise.

For more information, write Domino's Pizza, Inc., Franchise Services Department, 3001 Earhart Road, P.O. Box 997, Ann Arbor, Mich. 48105; (313) 668-4000.

Selling Your Business

I am interested in selling my business, but I work in an industry that is very small, and word of an impending sale could leak out easily. Where do I find a broker who is trustworthy and won't simply contact my competitors to see who is interested?
E.T., Somerville, N.J.

Your accountant may be a good starting point for locating reliable business brokers. You may also try consulting the *Directory of Intermediaries For Mergers, Buyouts & Acquisitions* (Business Publications, Inc., San Diego). It lists most reputable brokers around the country and costs $85 plus shipping charges. Or you could ask for referrals from business people in nearby towns who have had successful experiences with selling their companies.

Once you have compiled a list of prospective brokers, interview each of them carefully, says Thomas Horn, a merger-and-acquisitions expert in Lancaster, Pa. Ask plenty of questions to determine whether they would keep your impending sale confidential from competitors. When you have hired a broker, says Horn, specify those people you do not wish to be contacted.

If you don't feel you can risk a betrayal of confidence, you might try selling the business yourself, says Horn. If you do, make sure you know the value of your business before approaching prospective buyers. Horn recently published a book, the *Business Valuation Manual* ($29.95, available from Charter Oak Press, Lancaster, Pa.), to help you determine just that. It is an understandable, step-by-step guide to placing a value on a business.

Hiring The Handicapped

I have recently developed two board games and would like to expand my market from a local to national level. The games are made by the handicapped and were designed with the thought of providing extra work for these individuals. How do I expand?
J.L., Kiel, Wis.

The best place to start would be a regional Small Business Administration office. It will give you advice about hiring the handicapped plus information on the Handicapped Assistance Loan program, which offers low-interest loans to handicapped business owners.

The SBA office will also give you information about a local SCORE (Service Corps of Retired Executives) program that can supply general marketing advice. The SBA office will tell you the address of a local Small Business Institute, whereby local university business students volunteer to spend several months working to find ways to expand your business. Try calling the Milwaukee office at (414) 227-3241.

For more advice about hiring the handicapped, contact your Governor's Committee on Employment for the Handicapped, in Milwaukee; (414) 546-5117 or 453-7600. NB

How To Ask

Have a business-related question?

Write to: Direct Line, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062. Writers will be identified only by initials and city. Questions may be edited for space. All replies must be given in this column.

SPECIAL REPORT

ConSern Can Help With College Fees

Middle-income families now can obtain long-term, low-cost loans for higher education under the ConSern program.

By Harry Bacas

For many young Americans, the prospect of financing a college education looks increasingly bleak. Tuition is rising faster than the cost of living; government assistance is dropping; banks are growing wary of making student loans.

At the same time, business leaders are stressing that more and better education is important to the nation's future competitiveness.

The federal government's Guaranteed Student Loan program, which put out $9.5 billion in loans this school year to 3.8 million students, is targeted to students from lower-income families, only 15 percent of the potential college population.

Even this program, with a total loan portfolio of $43 billion, has been declining, a victim of deficit reduction. It also has been beset by rising loan defaults and by growing resistance from state loan agencies and banks.

Some efforts to take up the slack are in trouble. Colleges that offer parents a chance to prepay their young children's future tuition at today's prices, for example, are being accused of overestimating the returns they can get on the invested funds. California Gov. George Deukmejian recently vetoed a bill providing such a prepayment plan.

One of the most promising new initiatives is a private-sector program called ConSern, which offers students from middle-income families an alternative source of college financing.

ConSern has begun making flexible, long-term, low-cost, unsecured educational loans to those with good credit. Started three years ago in Washington, D.C., as a local project, it has just gone national.

"Our economy is based almost entirely on double-income families, who can't qualify for those government student loans," says ConSern's founder and president, the Rev. John P. Whalen. "This program steps into the breach."

Early recipients of ConSern loans needed various kinds of help:

Christine Salerno had to supplement her savings from a summer job at a Burger King in Albany, N.Y., and the amount she received from her parents as well as her earnings from a part-time job at another Burger King, in Lakeland, Fla., where she wanted to attend Southeastern College. But she was ineligible for a government loan.

Kathy Stachon, who is married, needed money not only for tuition but also to buy a car to drive the 45 miles between her home in Des Moines and Iowa State University, in Ames, and to pay for day care for her 18-month-old son, Zachary.

Fletcher Hanson, Jr., of Tumbling Shoals, Ark., with two children in college, used earnings from his real-estate and wholesale-lumber business to pay for his son Fletcher's first year at the University of Arkansas. But to pay for Fletcher's second year, Hanson wanted a loan, plus an additional loan for his daughter Elizabeth, who would be attending Memphis College of the Arts.

All of these students pay only the interest on their loans while in school, and can choose flexible terms for the balance, with up to 15 years to repay.

PHOTO: DENNIS BRACK—BLACK STAR

CONSERN
LOANS FOR EDUCATION
THE SPIRIT OF ENTERPRISE · U.S. CHAMBER OF COMMERCE
U.S. CHAMBER OF COMMERCE

Richard Lesher and Father John Whalen sign the agreement for the U.S. Chamber of Commerce to help ConSern reach more students.

The ConSern program was designed by a consortium of universities, is backed by major financial institutions and is administered by a nonprofit organization. Beginning this month, any business and its employees can participate in ConSern through membership in the U.S. Chamber of Commerce.

U.S. Chamber President Richard L. Lesher and Whalen briefed Secretary of Education William J. Bennett on the plan to extend the ConSern program to the national business community, and he congratulated them on the initiative.

"The great virtue of programs such as this," the secretary said, "is that they rely exclusively on private capital and do not commit federal funds in any way. This kind of activity is self-help at its very best."

Interest in obtaining education loans has intensified in recent years in the face of tuition charges that have risen faster than family incomes and the overall inflation rate.

Whalen, a former president of the Catholic University of America, editor of the 15-volume New Catholic Encyclopedia and executive director of a con-

SPECIAL REPORT

ConSern Can Help With College Fees


Fletcher and Judy Hanson of Tumbling Shoals, Ark., bank on ConSern to help send daughter Elizabeth, left, and son Fletcher III, right, to college.

PHOTO: MATT BRADLEY—BLACK STAR

sortium of 12 Washington-area universities and colleges, says government education-lending to low-income families, even though it reaches only 15 percent of the population, must be continued. "We don't worry about the top 15 percent," Whalen says. "It's the 70 percent in between that really have the problem."

Whalen says higher education today is an economic essential. "Years ago, when I was a boy," he says, "it was a rare person who went to college. Then, after World War II and the GI Bill, a college education became the desideratum of the majority. No longer was it just for the elite.

"Early in our history, this country made an economic accommodation so a person could get shelter, have a home. Later, we developed a second necessity, the monthly payment for a car. Now we have a third necessity, a monthly payment for an education.

"That shows how we are changing," Whalen says. "The first thing, the home, meant stability. The second necessity, the car, gave us mobility. The third thing, education, provides intellectual mobility."

Whalen says: "I have been intimately associated with higher education for 15 years. And I saw a growing need for additional money that students had to have just to go to school. I wanted to make it possible for people to go to school."

He persuaded the university consortium to set up an independent organization, University Support Services, to run the program. He went to Wall Street and persuaded Shearson Lehman Brothers to agree to market the commercial paper that would finance the project. He signed up the National Bank of Washington to make the loans (most of which would be quickly repurchased by ConSern). He got the Continental Insurance Company to insure against loan defaults and Wachovia Services to service the loan repayments.

Then he persuaded the Washington Board of Trade to sponsor a pilot loan program for Washington businesses. It was so well received that last fall ConSern decided to go national.

Christine Salerno, Kathy Stachon, and Fletcher and Elizabeth Hanson were among the first recipients.

Salerno is one of four children. Her father works for Niagara Mohawk Power Corporation in Albany. He helped put her through Zion Bible Institute in Barrington, R.I., where she earned a diploma. Last fall she transferred to Southeastern to earn a bachelor's degree in order to teach elementary school.

The first-year cost of $4,800 at Southeastern was more than she and her father could manage, and she was turned down for a government loan. Then she learned of ConSern through the school's financial-aid office. She applied and received a $4,000 loan; she is the borrower and her father is cosigner.

"It was my financial responsibility," she says. She now makes monthly payments of interest, using earnings from her $3.35-an-hour fast-food job, where she works weekday evenings 10 hours a week.

After she finishes school she can take up to 15 years to repay the loan or pay it off early without penalty.

Christine expects to marry before graduation; her fiancé is also at Southeastern. She thinks she may teach a few years, pay off the loan and stop working after she has a child, "because my place will be in the home."

Kathy Stachon, in Des Moines, already has a bachelor's degree—in health education, from Utah State University in 1980. There she met and married Richard Stachon, who went on to earn an M.B.A. from Creighton University, in Omaha. He joined Shearson Lehman Brothers as a stockbroker. His job has taken them to places where Kathy couldn't find work in her field. And Zachary was born in 1986.

Kathy decided to get another degree that would enable her to teach elementary school. The nearest suitable school was Iowa State, in Ames. It would take two years and cost $10,000.

One day Richard came home from his job at Shearson with news of ConSern, and Kathy decided to enroll this year. Shearson was sponsoring the student-loan program for its employees and would pay half the loan discount points.

The couple got a $10,000 loan to cover two years' tuition, books, supplies, child care and a 6-year-old car to get Kathy to and from school.

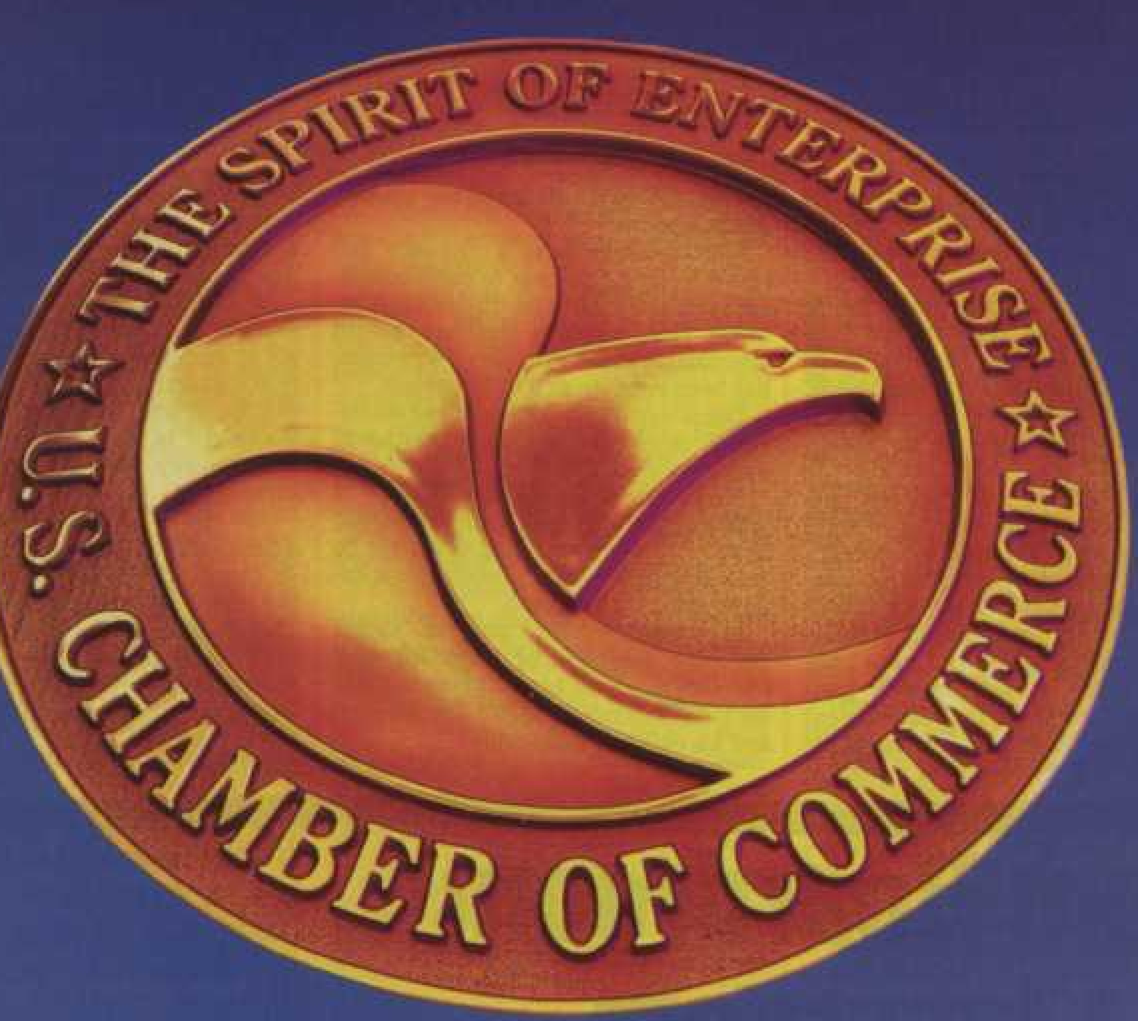
Fletcher Hanson III, 20, is studying finance at the University of Arkansas and is learning the real-estate business from his father. His sister Elizabeth, 18, is going for a bachelor of fine arts degree in fashion design. Last summer she entered Parsons School of Design in New York City; in the fall she transferred to Memphis College of the Arts.

Their father, who has a master's degree in business, says the two $15,000 loans are needed for a car, clothes and other living expenses as well as tuition, books and fees. "But I may not get any more loans after this year," he says. "If I sell some property, I'll pay the loans off. I call these 'bridge loans.'"

Hanson says the representatives of ConSern with whom he talked about the loans "were super people." He says when he reported that college officials had told him he didn't need $15,000 for one year of school, the ConSern representative said, "Don't worry about them. We're lending *you* the money, not them."

Whalen says the ConSern program is expected to expand rapidly, now that the U.S. Chamber is making it available to all its members. There were fewer than 600 loans totaling less than $4 million in 1987, he says, but ConSern should issue 15,000 loans worth $100 million this year, $130 million next year and $150 million the following year, he predicts. He says that joining forces with the Chamber represented a natural confluence of interests.

U.S. Chamber President Lesher said: "We hear a lot about competitiveness. Well, one of the things that will help America be more competitive is more and better education. And this is a private-sector program entirely." He said the loan program will be "one of the



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more important employee benefits, and employers will be pleased they are in a position to offer it to employees who need it."

An employer can participate for as little as $25 a year, based on the number of employees. The employer must distribute information to employees, but will not process or guarantee the loans, assume liability or do any administration.

All contact is directly between ConSern and the employee, who pays $45 to apply for a loan. The student applicant must be accepted or enrolled at least half time in courses leading to a degree or a diploma, must maintain satisfactory academic progress and have good credit or have a cosigner with good credit. The good-credit requirement means having fixed monthly payments of no more than 40 percent of income or having net worth 10 times the amount of the loan.

The borrower pays a one-time discount fee of 3.5 percent to cover administration and insurance. The monthly interest rate, which is the three-month commercial paper rate plus 3.6 percent, has been running at 9 to 10 percent.

Loans can be for any required educational expenses, including computers and transportation.

Maximum amounts are $25,000 a year and $100,000 total, with repayment in up to 15 years. Existing debts can be consolidated. ConSern anticipates a default rate of 0.6 percent.

Says Whalen: "This program means that any employee of a participating business can have access to capital that isn't the business' capital for his own and his children's education.

"It is an enormous employee benefit. Some companies are using the program to recruit. They say, 'Come work for us and bring us your student loans; we'll pay them off for you.' "

In Tumbling Shoals, Ark., Fletcher Hanson, Jr., says: "If all we're going to get in our colleges is people who qualify for guaranteed government loans, it will be a sad day for this country. We've got to keep the middle class in our economy. We've got to help them survive." NB

Additional details on participation in the ConSern program appear in the insert in the center of this issue. This insert describes how the program works and how it differs from other student-loan programs and gives the telephone number and address to contact as the initial step toward participation in ConSern.

From Boardroom To Classroom

Businesswoman Jane Evans turns her corporate success formulas into lesson plans for college students.

By Sharon Nelton

Washington State University's College of Business and Economics wanted to present its students with a different kind of role model during its "executive-in-residence" program this school year. It wanted a woman.

As do a number of universities, WSU each year brings to its campus one of the nation's top entrepreneurs or corporate leaders to spend a few exhausting days sharing their knowledge and experience with business students. WSU's past executives-in-residence have included the CEOs of companies such as Exxon Corporation, Standard Oil Company, and Trans World Airlines. A recent favorite was Victor Kiam, chairman of Remington Products, Inc., who was joined by his wife, Ellen, a small-business owner.

"Sometimes a person has to work a lifetime, working his way up through the organizational hierarchy, to get access to that kind of personality," says WSU's business dean, Rom J. Markin.

The program is especially important to a school like WSU, located as it is in Pullman, a town of about 24,000 in the isolated wheat-growing southeast corner of the state. Markin says WSU tries to bring stimulating visitors to the campus. "It's a very valuable part of the whole educational experience."

Except for Ellen Kiam, all of the WSU executives-in-residence since the program began in 1973 were men. But female enrollment in the 1,950-student College of Business and Economics had reached 44 percent by 1987. According to Glenn Petry, head of the program, it was time to invite a woman.

He went after—and got—one of the best: Jane Evans, 43. She became president of I. Miller Shoes at age 25 and has held high-powered corporate jobs ever since, including the executive vice presidency of General Mills, Inc. From 1984 to 1987, she was CEO of Monet Jewelers.

Predictions were that someday Evans would lead a major U.S. corporation. But last year she changed careers, leaving the corporate world and New York to become general partner at Montgomery Securities in San Francisco.

There, with J. Gary Shansby, former chairman of Shaklee Corporation, she and others have raised $75 million for the Montgomery Consumer Fund, which specializes in leveraged buyouts.

"I came to realize that my generation is not going to be the first generation of women who actually run a Fortune 100 corporation," she explained to a WSU class during her recent visit. She also said the opportunity for wealth is much greater in her new situation.

Evans defies the stereotype of the driven, tough-as-nails woman executive. About 5 feet 2 inches, she is warm, funny and friendly. Her brown hair is cropped stylishly short; she favors soft sweater dresses and flats instead of the dress-for-success suit and heels; she is aglitter with the Monet jewelry that she still loves. She has been married for nearly 18 years and has a teenage son.

Beginning with a standing-room-only speech in Daggy Theatre (capacity 420), Evans was marched through a crammed two-day schedule that would have worn out many of the students she came to teach.

It included early breakfasts with students, presentations at classes, participation in news interviews and meetings

with graduate students and faculty. When she walked into the last class one day and found herself waiting to be introduced, she also found a photographer waiting to take her picture. Unruffled but wilted, she took a compact from her handbag and began to repair her lipstick, laughing at herself as she did so and saying that she had to do it for the photographer. "This is *not* a male trait."

The moment summed up two of the themes Evans sounded throughout her stay: the importance of humor to success in the corporation, and the changes many must undergo when both marriage partners must work in order to maintain their standard of living. "The effective leaders for the future will be those individuals who possess traditional leadership skills *and* supporting and helping behaviors," she said. "In other words, people who possess the best attributes of both sexes will be the new leaders in the decades ahead."

In classroom sessions, Evans told students how she had achieved such early success. Born in Hannibal, Mo., she had absorbed an understanding of business from her father, a shoe company executive. At Vanderbilt University, she majored in French and minored in economics. When she graduated, fluent in four languages, she accepted an offer from Genesco, Inc., to become part of its training program, thinking someday she would work in its international department.

Initially, she was assigned to a subsidiary, I. Miller Shoes, in New York. She was the first trainee sent from corporate headquarters, she recalls, and the other employees thought she was a spy. Realizing she had to prove herself very quickly, Evans latched onto a mentor, George Sheer, vice president of merchandising—he would later become her husband. Sheer assigned her to analyze I. Miller's Washington stores.

"I spent hours talking to customers, assessing the market and coming back with facts and figures they'd never had before," she said. "And because I had fresh eyes and ears and was very close in age to some of the customers, I came back with a report and some recommendations that really impressed the executives in the company." Her suggestions were implemented, producing a turnaround in the Washington stores.

When she was named president of I. Miller in 1970, she leapt over a group of vice presidents—but not her husband. He had already left to start his own company.

Executive-in-residence Jane Evans told college students that tomorrow's effective leaders will have to possess more than traditional leadership skills.

If Paul Walker and Lori Williams, both graduate students in marketing, are any indication, men and women students alike found value in what Jane Evans had to say. Walker said her encouragement to be direct in business situations contradicted what he had been taught. "It seems like she's saying go ahead and be direct, be honest, and things will work out O.K."

Evans had urged the female students to get into work where they could be measured, fields such as sales and finance. "That's something I need to think about," said Williams.

Were there differences in having a woman executive-in-residence? Apparently. "She was probably as laid-back and easygoing as any executive we've ever had," says Glenn Petry. He also found her to be more humble and optimistic than most executives, and he called her "one of the most personable executives we've ever had here."

What Dean Markin appreciated was the chance for his students to see Evans as a real person. Said he: "She laughs and she makes jokes, and she has a child and she has a husband, and she's had a career, and she is in many respects—while very extraordinary—a very ordinary human being." NB

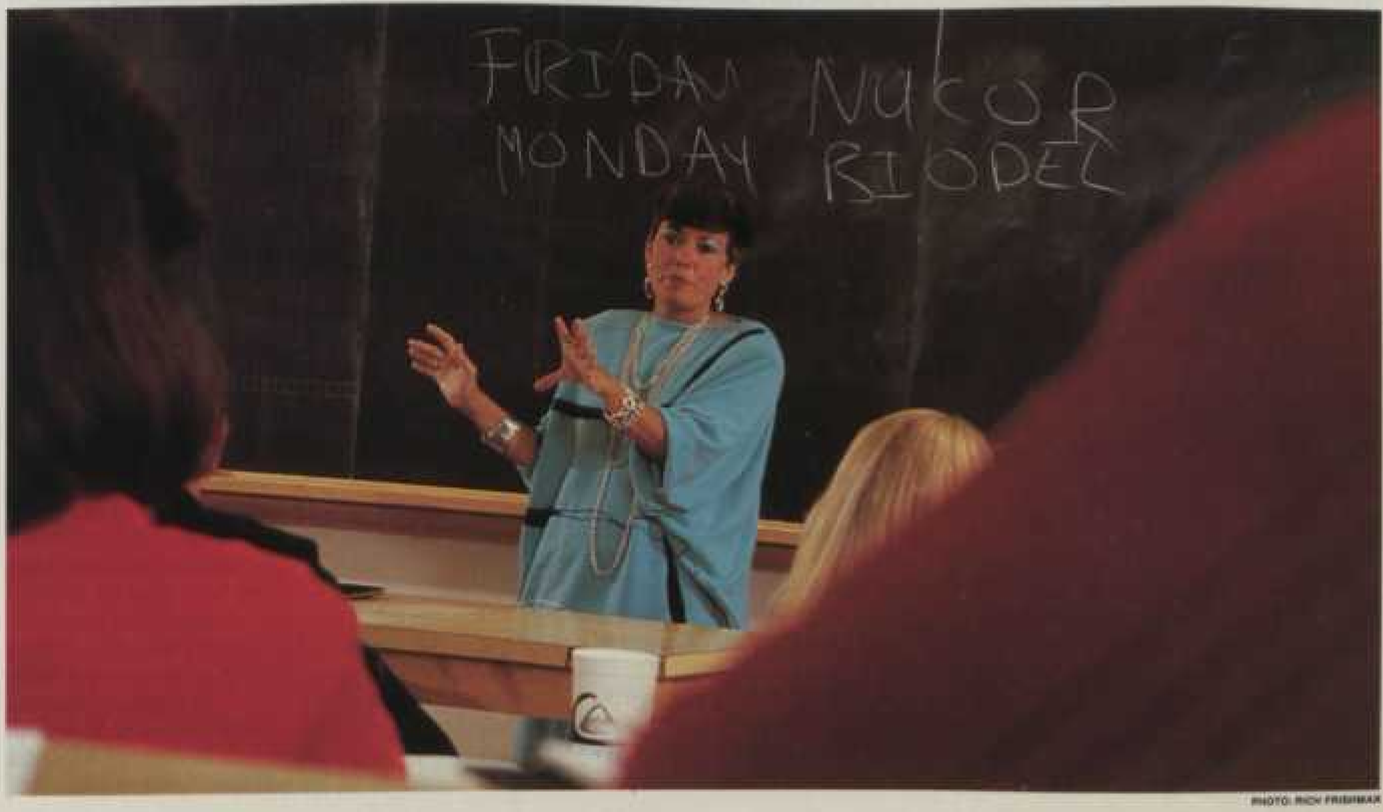

PHOTO: RICH FRISHMAN

SPECIAL REPORT

An Innovative Business Tool

With the help of an innovation center, starting a business need not be such a risky venture.

By Jack Wynn

Many entrepreneurs, frequently better at hatching new ideas than marketing them, discover too late that a well-honed understanding of business techniques and strategies is crucial to their success. Among sources to help them gain that expertise is the innovation center, a relatively new phenomenon that is catching on quickly across the country.

Innovation centers provide more than the basics offered by small-business incubators, which primarily reduce start-up companies' overhead expenses through shared services and low rents.

Working mostly in partnership with universities, innovation centers identify the most commercially promising emerging technologies. They provide the expertise and other support generally needed to make a fledgling business fly, such as "hands-on" management, a viable marketing plan, venture capital and operating space.

"The result is usually a new business that stands a very good chance of not only surviving but maturing into a robust, profitable enterprise," says Don A. Stringham, chairman of Genexus International, Inc., in Salt Lake City.

Formed in 1983, the publicly traded firm has created and is operating more innovation centers in the United States than any other for-profit organization. It operates or is building centers in cooperation with six universities, a number that the company expects to double this year.

Stringham says each fully operating center screens 400 to 500 technology-based project proposals a year. Each center selects and becomes actively involved in the most promising technologies. In return, Genexus receives an equity position in each center and in each company formed.

A useful tool developed by Genexus to get commercial ventures up and running, says Stringham, is a proprietary database that contains information such as funding sources classified by investment interest and a talent pool for starting and running a company.

Genexus principals have helped develop several successful businesses. One is privately held NPI, formerly Native Plants, Inc., whose $24 million in annual sales make it the largest of the small-plant biotechnology companies. Among its products are minitubers for the $200 million-a-year seed-potato market.

Jack Wynn is a free-lance writer based in Alexandria, Va.

PHOTO: TIM KELLY—BLACK STAR

Genexus Chairman Don Stringham displays hollow fibers being developed for vein insertion to achieve gas exchange in blood when a patient's lungs are not functioning.

By mid-1987 there were some 50 innovation centers operating or developing in connection with well-known institutions such as the universities of Arizona, Utah, Georgia, and Michigan. Schools cosponsor centers partly to generate revenues in the face of shrinking endowments and rising costs. The centers enable schools to tap the commercial potential of work being done in their research labs and to get in on the ground floor of companies that may provide them with income for years.

In 1981, Congress passed a law giving schools the rights to federally funded faculty inventions, encouraging universities to help foster business ventures. This opened the door for schools to help form companies.

Iowa State University, for example, had a role in establishing three money-making ventures last year, and the University of Tennessee has equity in two firms into which venture capitalists have pumped over $6 million.

Florida Atlantic University's innovation center, wholly owned by Genexus, opened for business last September with five entrepreneurial firms. Florida Atlantic is interested mainly in businesses with a "proprietary edge in technology," says Ramesh Krishnaiyer, co-director of the FAU Innovation Center.

Genexus and FAU recently agreed to fund and help manage a new corporation that will be 35 percent owned by Genexus and the FAU center. The firm, Audex, Inc., will produce and distribute a newly developed device to aid in cardiopulmonary-resuscitation training and administration.

The device, called the Audex Electropacer, was invented by Lyle Mendicino, who will be president of the new corporation. He says the American Red Cross has issued a request for a proposal to the start-up, which will grant the organization the rights to distribute the product through its worldwide sales network. Sales estimates exceed 750,000 units per year, which means the market for Mendicino's product could top $11 million annually.

Not all academic scientists are eager to cozy up to business, for fear of tainting their research aims, but that concern seems to be fading. "Tradition has it that science, to be good, has to be so pure as to be useless," says Frank H.T. Rhodes, president of Cornell University. "It's not so." Adds Wesley Posvar, president of the University of Pittsburgh: "Serendipitous academic research typically takes 10 to 15 years—or forever. There's no reason why it should be so protracted."

State governments also are encouraging the spread of innovation centers, which are seen as ways to create jobs and generate tax revenue. "This is an example of the kind of public- and private-sector partnership we've talked about for so long," said Georgia Gov. Joe Frank Harris at the recent ground breaking of the Athens Innovation Center, a cooperative venture by the University of Georgia Research Foundation and Genexus.

Stringham at Genexus predicts that innovation centers will spread rapidly over the next five years and become the source of some of the country's most exciting new technology-oriented companies. Says he: "Everyone benefits from the formation of small businesses, our nation's most efficient and fertile source of innovations." ■

Australia

By Glenda Korporaal

PHOTO: RON COLBROTH—FOLIO

PHOTO: MELINDA BERGE—PHOTOGRAPHERS/ASPEN

PHOTO: DAVID HISER—PHOTOGRAPHERS/ASPEN

Among Australia's tourist attractions are, from left, the Sydney Opera House, the Great Barrier Reef and Ayres Rock.

This year the biggest wave of American tourists ever will flood into Australia to witness celebrations of 200 years of western settlement there—Australia's bicentenary. Those tourists will visit everything from the giant Ayers Rock to Sydney's Opera House to Queensland's Barrier Reef to Brisbane's World Expo '88.

Some 400,000 Americans will be among the record 2.3 million foreign visitors to Australia in 1988, compared with 1.7 million in 1987. For the first time, Americans visiting Australia will outnumber Australians visiting America. This will make the United States Australia's leading source of foreign tourism, ahead of nearby New Zealand and well ahead of Japan.

This sharp rise in tourism is a function not only of the bicentennial year but also of a fundamental change in direction in the Australian economy.

Tourism and services are seen now as an increasing source of foreign exchange for Australia. Australia's foreign exchange earnings from tourism have almost doubled from $1.9 billion Australian dollars ($A) in 1984-85 to $A 3.7 billion in the financial year ended June, 1987. (One Australian dollar is worth about 70 cents of American currency.)

The tourism industry as a whole turns over more than $A 20 billion a year, or some 6 percent of the country's gross national product.

Australia's major source of foreign income traditionally has been from sale of raw materials such as coal, iron ore and bauxite, and agricultural goods, including meat, wool, wheat and sugar. In recent years, however, the country was hit hard by the sharp fall in world commodity prices and was forced to rethink its economic future.

After 200 years of Western settlement, Australia has a population of only 16 million. A nation roughly the size of the United States is inhabited by only slightly more people than The Netherlands. However the Australian economy ranks as one of the top 10 in the Western world, with a gross domestic product of more than $A 200 billion.

Australia is undergoing a major transition in 1988 from a closed, protected, regulated economy to one that is flexible, internationally oriented and open to the rest of the world.

These radical changes are due partly to the election in March, 1983, of a Labor government led by Prime Minister Bob Hawke. These economic reforms also are attributable partly to the need for economic restructuring following the sharp fall in Australia's terms of trade in the 1980s.

Australians are optimistic about economic prospects for the future. "Australia has all the elements necessary for future success: great resources, a government prepared to make the hard decisions, a people with guts and the preparedness by all sectors to pull together to make present sacrifices for future, substantial and sustainable rewards," says Hawke.

From its election, the Hawke government set about a radical program of deregulating the Australian economy and removing restrictions on international capital flows and investment.

It began in December, 1983, by floating the Australian dollar and removing a host of associated restrictions on capital flows in and out of the country.

It followed up in 1985 by opening the banking system to foreigners for the first time since World War II.

Five major U.S. banks—Citicorp, Bank of America, Chase Manhattan, Bankers Trust and Morgan Guaranty—received banking licenses. So did 11 non-American foreign banks. The changes have also meant that stockbrokers and merchant banks can now be wholly owned by foreigners.

Also, the Hawke government stepped up its activities to open up the economy and encourage foreign investment.

Recent changes involved easing controls on overseas ownership of rural land and real estate and mining-exploration rights.

Also, the role of Australia's Foreign Investment Review Board (FIRB), which was established in 1975, was drastically reduced. While most major foreign investments still have to be approved by the board, the general view is to give applications the green light.

The government has also substantially eased restrictions on overseas investments in the mining industry. There are no restrictions on foreigners exploring for oil and minerals, but any company wanting to establish a new mining business or opera-

Nation's Business *expresses its appreciation to the Australian Information Service and the American Chamber of Commerce in Australia for their assistance in coordinating staff travel in Australia and providing information for this special section.*

Prime Minister Bob Hawke is helping transform Australia from a closed, protected economy to one that is internationally oriented and open to the world.

tion involving a total investment of more than $A 10 million must have at least 50 percent Australian ownership.

Proposals that do not meet these guidelines may be allowed to go ahead if the board is satisfied there is difficulty in obtaining sufficient Australian capital.

The only major industries in which there are serious restrictions on foreign investment are television and broadcasting and existing—in most cases—residential property development.

The government also is seeking to attract increasing numbers of business people and entrepreneurs to Australia through its business migration program.

This program allows business immigration for suitably experienced people with capital of at least $A 500,000. However, others who do not have substantial capital of their own but who have skills needed to establish a successful business in Australia may be able to come in with business capital as low as $A 150,000.

The objectives of the program are to

PHOTO: AUSTRALIAN INFORMATION SERVICE

create new jobs, bring new ideas into the country, expand existing ideas and technology and stimulate exports. "We are seeking to attract a significant number of business migrants and are having considerable success," says Mick Young, minister for immigration, local government and ethnic affairs. "Business migrants bring major benefits to the economy. They introduce investment capital and new technologies, provide jobs and open up access to specialized overseas markets."

Since January, the government has afforded business immigrants the option of having their applications processed by accredited agents. Previously, applications could be processed only through Australian missions overseas.

These agents—which could be major banks (notably the National Australia Bank), accounting firms, legal firms and qualified consultants—are professionally qualified to assess business background and viability and the character and integrity of the applicants.

"We are looking for business people with a successful track record in their own country who we can be confident will be viable in Australia," Young says.

"This requires commercial judgment [and is] best handled by people with business expertise." Under the new system,

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he says, "the client would have freedom to choose the accredited agency best suited to his or her needs and would only deal with that agent. No contact with an Australian mission would be required."

Business migrants are interested in Australia because of its abundant natural resources and skilled and educated work force.

And Australia is an attractive place to live, with a high standard of living, relatively low crime rate, low pollution level, pleasant climate and friendly, English-speaking population.

After over five years in office, the Hawke government still rates high marks from the business community for its moves to deregulate the economy and responsible fiscal policies that have curtailed the growth rate of government spending and wiped out the federal budget deficit.

The Hawke government inherited a deficit of $A 4.4 billion for the fiscal year 1982-83. It rose to a record $A 7.9 billion in 1983-84.

Last August, the government announced it was aiming for a balanced budget in the current fiscal year, which ends June 30, but it now looks like Australia will finish the year with a significant surplus.

The government's economic reforms also include major reductions in income tax rates. The top marginal tax rate was reduced from 60 percent to 49 percent. However, the resulting revenue gap has been filled by a new capital gains tax and a corporate tax on employee fringe benefits such as company cars.

The New Gold Rush

Mining has traditionally been the backbone of the Australian economy. Queensland has some of the richest, most efficient coal mines in the world. Iron ore and bauxite have been two major exports, while offshore oil production has helped supply some 70 percent of Australian needs. The Argyle diamond discovery in Western Australia is one of the largest diamond finds in the world.

But the real excitement in the mining industry over the past few years has been caused by the resurgence of gold mining.

A combination of the rise in the world price of gold and the recent fall in the value of the U.S. dollar has sparked a new gold rush in Australia. For Australian gold producers, the world price of gold had risen from an average of $A 450 an ounce in 1985 to almost $A 700 an ounce by the end of last year. The fact that gold mining is not subject to the corporate income tax in Australia also is an attraction.

"We are seeking . . . business migrants [with] considerable success," says Mick Young, minister for immigration, local government and ethnic affairs.

PHOTO: AUSTRALIAN INFORMATION SERVICE

The new gold fever has led to a resurgence of activity in traditional mining areas, particularly in Western Australia and Queensland.

In 1986, Australian gold production grew 24 percent to its highest level since 1913. Of the 73 metric tons produced during 1986, 57 metric tons were exported. These exports earned Australia almost $A 955 million, or almost 3 percent of total export receipts.

Australia-U.S. Trading Relationship

Australia and the United States always have had a strong trading relationship. After the first English settlement in 1788, American trading ships regularly called on Australian ports. In the great gold rushes of the 1850s, when Australian miners and speculators were moving inland in search of their fortune, Cob and Co. stagecoaches were imported to provide transportation.

Since then, Australia-U.S. trade ties have expanded to the extent that America is now Australia's second-largest trading partner (Japan is the largest). The United States is a major consumer of Australian minerals, meat, lamb, wool and sugar, while Australians buy heavy equipment, computers, aircraft, defense equipment, electrical machinery and medical equipment from America.

U.S. companies are major suppliers of large trucks, conveyors, crushers, compressors and other heavy equipment needed for some of Australia's huge mines. American firms also supply drilling equipment needed for oil and natural-gas production.

Indeed, Australia is one of the few countries with which the United States traditionally enjoys a trading surplus—a surplus that has been increasing in recent years. The United States takes in 11 percent of Australia's exports and provides some 22 percent of its imports. In 1986, the United States earned $U.S. 5.8 billion from its exports to Australia while Australia sold it $ 3.4 billion of goods—producing a balance in America's favor of $U.S. 2.4 billion.

The Australian Trade Commission (AUSTRADE) has targeted the United States as the most important world growth market for Australian manufactured products. AUSTRADE recently established Resource Management Centers in the Australian consulates in Los Angeles and New York to provide information and support equipment for Australian companies trying to get a foothold in the U.S. market.

Under this new program, AUSTRADE selected 16 major product sectors in which it will help Australian companies in the form of promotions, trade seminars and exhibitions. Major industries targeted include automotive components, textile products and clothing, computer software, aircraft, food and beverages, and scientific equipment.

Australia-U.S. Investment Ties

The United States also has been a major source of foreign investment for Australia—representing about a third of all foreign investment. By June, 1987, almost 800 U.S. companies had invested more than $U.S. 10 billion in Australia. They helped to account for almost 25 percent of Australia's nonagricultural exports and employed more than 300,000 people. Another 10,000 U.S. firms have appointed local representatives, agents and distributors around the country.

Many major U.S. corporations have an active presence in Australia. They include big banks; Ford and General Motors; computer companies such as IBM, Digital Equipment, Wang and Data General; major mining companies such as Exxon, Texaco, Getty, Newmont and Asarco; food companies such as Nabisco, Kellogg and McDonald's; and other major companies such as AT&T, 3M and General Electric.

A more recent trend has been Australian investment in the United States. Once only a fraction of the level of U.S. investment in Australia, Australian investment in America has increased rapidly over the past few years.

Now, the annual increase in investments from Australia easily outstrips the growth rate of new U.S. investments in Australia.

The Australian investment bank, Capal

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Court, estimates that Australian companies had invested about $U.S. 7.6 billion in the United States by the end of 1986. Several major investments by Australian companies in the United States last year are expected to bring this total to about $U.S. 16.5 billion.

The merchant bank claims that Australian companies already have another $U.S. 15 billion earmarked for investment in America over the next two to three years.

California, New York and Texas have attracted the largest numbers of Australian companies, while Southern states also have been popular.

The largest investor is Australia's largest company, Broken Hill Proprietary Limited, which has made four acquisitions worth almost $U.S. 4 billion in recent years. The largest of these was in 1984, when it spent $U.S. 2.4 billion to buy Utah Mining from General Electric.

Rupert Murdoch's News Corporation has spent almost $U.S. 3 billion since its arrival in the United States in the early '70s through purchase of two newspapers in San Antonio. The company is now one of the major media owners in America.

A Melbourne-based transport and security firm, Mayne Nickless, owns Purolator Armoured, America's second-biggest armored-car operator, while the Sydney-based building-materials group, Boral, has become the second-largest producer of bricks in the United States, with major operations throughout the South.

The U.S. Contribution To The Australian Bicentennial

Part of the U.S. government's contribution to Australia's bicentennial celebrations this year is an innovative trade partnership program, "AUSA '88," launched late last year.

Designed by the U.S. Foreign Commercial Service in Australia, it aims to get Australian and U.S. companies working together. Last October, representatives of a select group of Australian companies visited the United States to discuss joint ventures, such as the transfer of licensed technology, capital equipment, technical consultancy and international marketing links.

As a result of the trip, 15 high-technology Australian companies received firm commitments from U.S. firms in six cities to go ahead with a variety of strategic business partnerships.

Joint-venture commitments from com-

John Button, minister for industry, technology and commerce, looks to joint-venture commitments from high-tech companies to help increase Australian exports.

PHOTO: AUSTRALIAN INFORMATION SERVICE

panies such as Honeywell Bull, Wang, Telex and Apollo Domain will increase Australian high-technology exports, says John Button, minister for industry, technology and commerce. "We are receiving constant reports from local companies that large transitional corporations have been eagerly seeking out locally developed hardware and software for worldwide export," he says.

"In the short period since our new information strategy was announced, there has been marked increase in the dynamism of the industry and a sudden awareness by local companies of the export potential of their products," Button adds.

The U.S. government is supporting Australia's bicentennial in other ways. It is making a major contribution to the new National Maritime Museum in Sydney's Darling Harbour.

The U.S. ambassador to Australia, Bill Lane, last year presented a check for $U.S. 5 million to establish a permanent exhibit celebrating 200 years of Australian-American relations through maritime links.

The United States also will be strongly represented at Brisbane's World Expo '88. One of the major tourist and commercial attractions of the year, the Expo will be opened by Queen Elizabeth on April 30 and will last for six months. Its theme will be "Leisure in the Age of Technology."

For Australia, 1988 promises to be an exciting year.

It will be one of celebration for the country but also one in which it will increase its trade and commercial ties with the rest of the world—particularly with its big neighbor and ally across the Pacific, the United States. NB

Finding The Right Franchise

By carefully examining before you buy, you could choose from an array of franchising opportunities ranging from fries to crafts to check cashing.

By Nancy L. Croft and Meg Whittemore

"We're going to be the next McDonald's." Buoyed by promises such as that from confident franchisors, many prospective franchisees have considered buying a piece of the "burger"—even if it was a janitorial service or some enterprise less familiar than the golden arches.

Buying an established franchise is usually a safer bet than starting an independent business, but it depends on the franchise and on the homework a potential buyer does before investing. For those risk takers looking for the next McDonald's, buying into a newly franchised business can either earn big returns or produce another statistic on the Commerce Department's business-failure list. A new franchise is like a start-up, so the risk is higher.

"You have to look at new franchises like stocks," says Patrick Boroian, president of Francorp, a franchise development and consulting firm in Olympia Fields, Ill. "You have the blue chips—the 7-Elevens, the McDonald's, the Holiday Inns,—which cost a lot of money to buy today, and you can hardly get one. Or you could buy one of the new franchises. Like over-the-counter stocks, if you stay with them over the long haul, they could be worth a fortune."

But very few new franchises will become the equivalent of a Domino's Pizza. "That's why you look at the management, their experience, their financial capabilities, the market for their product or service," says Boroian. "It's very similar to the way you would analyze a stock."

There are advantages to buying a new franchise if you've done your detective work, says Harold Nedell, who owns a Houston franchise financing firm, M&N Franchise Development Company. "You get the personal attention of the principals, who are going to put all the time and effort necessary into seeing that you're successful, because they can't afford a failure at this point," he says. "You also get the best locations, as well as a greater opportunity for growth. If you wait until there are a lot of these things around before you invest your money to be sure you're getting into something that works, the best territories are already sold out."

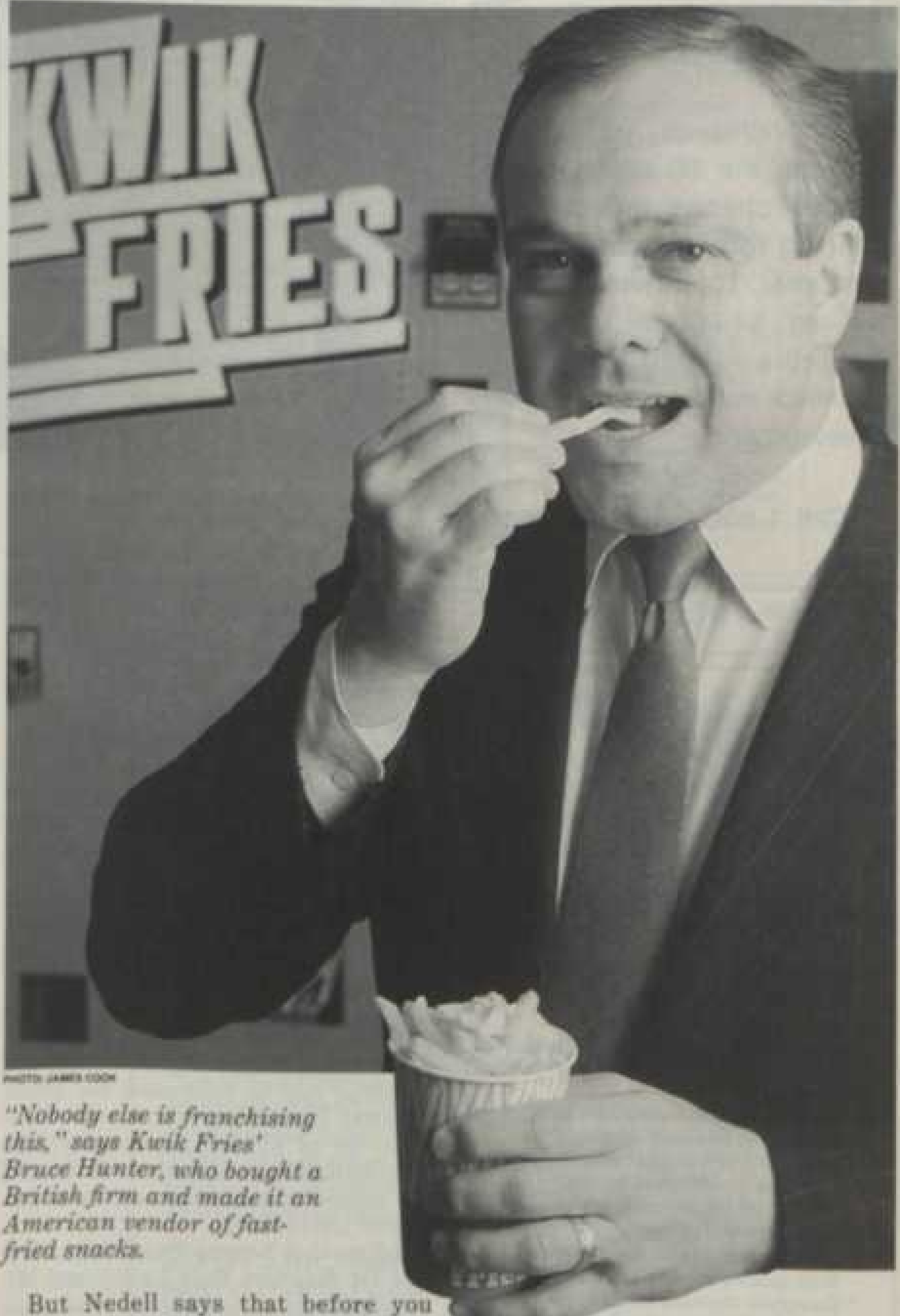

PHOTO: JAMES COOK

"Nobody else is franchising this," says Kwik Fries' Bruce Hunter, who bought a British firm and made it an American vendor of fast-fried snacks.

But Nedell says that before you make a commitment, you should ask very specific questions of new franchisors—especially those that have not been in business more than two years before franchising. (See box on Page 58.) It is also wise to check with the Better Business Bureau to make sure the company is legitimate.

Traditionally, the new franchises that fare the best are those that are first in a market with a product or concept, that obtain a trademark if possible and that provide marketing support. Those that do best also appear to be the ones that capitalize on trends, such as consumers' preferences for convenience and for spending more time at home. Most emerging new franchises are even further segmenting product and

Finding The Right Franchise

Robert Gottschalk opened his first Clean 'N' Press dry-cleaning store in Phoenix, charged 99 cents a garment and now franchises his "constellation" cleaning concept.

service niches that have already proven successful.

Video's 1st, based in Albany, N.Y., is one example. Using 48-square-foot, freestanding kiosks strategically located in high-traffic areas such as shopping center parking lots, Video's 1st rents only the top 30 newly released videocassette films.

The procedure is like that of a fast-food drive-through window. The customer drives up, chooses a film, picks it up from one of the kiosk's two windows and drives off in a few minutes. Videos rent for about $3 a day.

The first company-owned store entered the crowded video-rental field nearly two years ago, and the parent company, Associated Video Hut, Inc., started selling franchises last May. So far it has sold 80 franchises, which began opening in January. A Video's 1st franchise can be purchased for about $100,000. In addition to the initial franchise fee of $18,500 for training, the price includes site selection, the heated and air-conditioned kiosk and an inventory of 750 cassettes.

Before they became franchisors, Video's 1st founders Todd LeRoy and Michael Atkinson were with Shearson Lehman Brothers. After researching business opportunities, they realized that nobody was franchising drive-through video stores. They invested $500,000 of their own money to franchise the concept.

Though the video rental business is competitive, "research shows that consumers want convenience in obtaining video rental tapes. They look at selection and depth of new titles and price, in that order," says LeRoy. By conveniently offering only the most-sought-after tapes, he says, "we will satisfy 80 percent of the consumers almost 100 percent of the time."

Another franchise found in parking lots is Park America. According to founder James Jennings, it is the only franchised valet parking service in the country. Based in Red Bank, N.J., the company was founded in 1985 as a sideline money-maker for Jennings, who was an executive with Warner Communications in New York. He hired family members to help park cars, and within two years he was servicing 60 accounts in New Jersey.

Jennings hired several experts, including a franchise director, to help him expand the business, and the company sold its first franchise last June. By year-end Jennings had sold six in New Jersey and one in Florida.

For about $30,000 a Park America franchisee can set up shop—complete with an eight-day training program at the franchisee's location (three days are devoted to soliciting accounts), a computer, a printer, a bookkeeping software package designed for the valet parking service, uniforms, brochures, flyers, parking tags, signs, stationery and an operations manual. Attendants are trained to take advantage of limited parking space. Royalty fees are about $600 a month, or $800 after the business grosses $100,000 a year.

Hotels, shopping malls, private par-

Finding The Right Franchise

ties or any others wanting a fully insured valet service pay Park America franchisees $100 to $200 a night. At least two attendants must be on duty. Park America retains $1 of each tip and pays attendants $5 an hour.

Park America's services also include rides home for intoxicated patrons. Some establishments have reported receiving as much as 20 percent off their liquor liability insurance for offering patrons this service. "We're working with Mothers Against Drunk Driving (MADD) on putting together a national program," says Jennings.

One franchisor who is out to be the McDonald's of the snack-vending business is Kwik Fries, of Colorado Springs, Colo. But franchisor Bruce Hunter decided to sell just french fries and chicken nuggets. When a customer inserts 75 cents for fries or $1.55 for nuggets, a preweighed portion of the frozen food slides down a chute into a basket, is fried, drained and dropped into plastic cups. The entire process takes less than a minute.

Hunter, who spent 16 years as a financial and investment consultant, saw

the vending machines' popularity in Europe, bought out the British company and brought it to the United States in May, 1986. He spent 14 months drawing up a franchise plan and began offering franchises last October. The company went public last June. By year-end Hunter had sold 30 of the 110 master franchises the company is offering. The master franchisors, in turn, have sold 50 district franchises.

Franchise fees are based on the number of district franchises in each master territory—$5,000 for each district, or individual, franchise. District franchises sell for $25,000, which includes 21 machines, a refrigerated van, a computer system and training. About $30,000 more is needed for working capital and living expenses until the franchisee gets established. Franchisees also pay 5 percent weekly royalties on gross sales, including a 1 percent advertising fee.

And the competition? "Nobody else is franchising this," Hunter says. "The two or three other competitors are going through vending companies. But food isn't something you service once a week." Kwik Fries franchisees must clean and service the machines every day, which takes 20 minutes.

Another industry tailored for franchising is discount dry cleaning. Robert Gottschalk says his Clean 'N' Press Franchise, Inc.—one of several discount dry-cleaning franchises popping up around the country—charges 60 to 80 percent less than traditional dry cleaners.

Four years ago, Gottschalk opened a pilot program in Phoenix, where he charged only 99 cents per garment. The concept was so successful that it grew to nine company-owned stores. He began selling franchises last May and has since sold five in San Francisco, three in Minnesota, as well as regional territories in several Southeastern states. Depending on the cost of doing business in a particular area, franchisees may need to charge up to $1.49 per garment.

Most dry cleaners charge five times that amount, says Gottschalk. He says his prices are low because of the way he has organized his system—forming a "constellation" by adding satellite units to the original franchise. A basic Clean 'N' Press constellation consists of a dry-cleaning plant that also doubles as a retail outlet, plus two satellite stores where clothing can be dropped off and picked up. A franchisee can quickly expand the business by adding satellite units without the extra expense of building a plant at each site.

A typical Clean 'N' Press franchisee "must be business-oriented," says Gottschalk. "The 'moms and pops' will not work for us. Our franchisees must be able to manage people and systems."

The initial cash requirement for a Clean 'N' Press franchisee is about $75,000. Start-up costs include a $25,000 franchise fee, which covers a 120-day pre-opening and preparation program, grand opening and promotional assistance. The total investment will run about $215,000 to $240,000, depending on the area.

Another franchise in which working well with people is a plus is Cashland Check Cashing Centers. William Rameson, cofounder and vice president, says he is out to personalize his brand of financial services. As the financial services industry becomes more deregulated and franchising becomes a more popular means of expansion, banks in particular will become more competitive for big accounts, says Rameson.

Most who make up the 29 percent of

Finding The Right Franchise

Wayne Lowery, president of San Antonio-based WaynePaging, Inc., cut FCC red tape to build the first firm to franchise radio-paging services.

PHOTO: RON JONES

Americans without bank accounts have limited resources for cashing checks. In 1983 William Rameson and brother Ronald opened their first check-cashing store in Sacramento, Calif., to serve those people.

The business grew to five stores by 1986 when the Ramesons began looking into franchising.

Cashland came to the attention of Robert McIntosh, a longtime franchisee and a former educational consultant for the International Franchise Association. He joined Cashland as president in 1986, and it is the first such service to franchise, he says.

The business started selling franchises in January, 1987, and has since sold the rights to 250, most in blue-collar neighborhoods. A Cashland store

Exercise Caution Before You Buy

Harold Nedell, who owns a franchise financing and development company in Houston, says anyone evaluating a franchise opportunity should:

1. Look for a business with a track record of at least two years. "The franchise itself, on the other hand, can be in business for a week. You're not buying a franchise, you're buying a business, the prototype," he says.
2. Examine the core business' financial statement to determine profitability.
3. Examine its debts to see if the business is sufficiently capitalized to implement the franchise system.
4. Ask what stake the principals have in the business.
5. Ask about advertising and marketing. In a good program, Nedell says, advertising dollars are kept separate from the parent company's assets.
6. Look at the future of the industry. Would changing technology make your product or service obsolete?
7. Make sure there is demand for this franchise in the region where you plan to operate.
8. Ask an attorney who understands franchising to explain the agreement to you. Make certain the attorney's explanation matches the franchisor's.
9. "Before you sign any license agreement or letter of intent, before you give a check to anybody," Nedell says, visit the franchise headquarters. "Look at their books and records. Find out who the principals are. Who will be providing you with support services?"
10. Most important, learn whether you will be happy in the business. If you want to go into the doughnut business, for example, work free for a while in a doughnut shop. You'll know in a day or two if you can stand it.

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has up to 16 tellers, bulletproof windows and a security system. The first opened last month.

Cashland charges customers a fee of 1.75 to 1.95 percent of each transaction. Franchisees, in turn, pay the franchisor a 9 percent monthly royalty on gross revenue. A franchisee can buy a store for about $100,000, which includes a $25,000 initial franchise fee for the computer system and training.

Franchisor support services include a quarterly newsletter, monthly promotional giveaways at each store, a public-relations and marketing program to help solicit corporate accounts and an advice hot line.

McIntosh says Cashland is asking banks that can't cash checks for those without accounts to refer such people to Cashland facilities. "It's a great public-relations tool" for banks, he says.

Though the financial-services industry is becoming more deregulated, other industries are still under tight and complicated restrictions. Seldom does anyone in these industries cut through all the red tape to be able to sell franchises. Until recently, one such industry was radio paging.

Regulated by the Federal Communications Commission (FCC) and local public utility companies, the few large paging companies that dominate the industry have had little competition. "It's heavily regulated, and not too many people know about the industry," says Wayne Lowery, who founded San Antonio-based Lowery Communications, Inc., in 1983.

"And even if somebody did know enough about the paging industry to start a paging business," Lowery says, "you have to have an FCC attorney, an engineer, know something about antennas, transmitters, terminals, transformers. . . . It's scary."

Lowery started selling franchises under the name WaynePaging, Inc., last June. "We handle all FCC licensing, antennas, towers, installation and maintenance. Franchisees don't have any of those problems to worry about. If lightning hits a transmitter and knocks it out, they don't have to put in $15,000 for another one. We take care of that."

About $40,000 will get a WaynePaging franchisee up and running. The $22,500 franchise fee covers one week of training, a computer and software. Franchisees, says Lowery, need only 200 to 300 square feet of office space from which to lease the paging units and for housing the computer. The pagers rent for $14.50 to $24.50 per month.

Marianne Montagna's Exquisite Crafts, in Carmel, N.Y., will train franchisees to teach beginners in arts such as stenciling and needlework.

PHOTO: DOM FURORE

"The main thing a franchisee needs to do is get out and hustle pagers," says Lowery. "We give them a list of about 50 different companies that use pagers." The franchisor is working with Snelling and Snelling employment services to locate potential sales and operational employees in franchisees' territories. Lowery has sold 10 franchises in Texas—many to absentee owners—and plans to expand to Chicago, Detroit, Philadelphia, Boston and Washington.

Franchises in parking lots, paging beepers for movers and shakers—it may seem that no one is staying home. But home has become the heart of some franchising ideas. Although consumers still demand more convenience while they're out, people are spending more time enjoying the conveniences of home, many experts say.

Harold Nedell agrees. "It's indicated by the amount of money being spent on home entertainment centers," he says. "Anything that focuses around home is going to have a great future."

Marianne Montagna certainly hopes so. She has just completed the paperwork to franchise her company, Exquisite Crafts, which she founded in 1972, and will start selling franchises this month in New York, New Jersey and Connecticut.

The company-owned store in Carmel, N.Y., has 30 craft departments. Franchisees will be trained to teach beginning craft classes ranging from stenciling, floral arranging and needlework to oil painting, matting and framing. Montagna says her two-hour classes—offered throughout the day—accommodate five to eight customers at a time, and the only charge is for materials. "Every class is booked," she says.

Montagna's main competitor is Ben Franklin, an all-purpose dime-store chain with a large crafts department. "But when it comes to crafts, consumers want personalization," says Montagna. "They want someone to answer their questions on how to use the various craft materials. And we offer classes, whereas Ben Franklin and other discount chain stores usually do not."

Montagna says she prefers that franchisees open their stores in rural settings or strip centers where the expenses for 1,200 square feet of space are usually lower.

The initial franchise fee is $7,000, though franchisees also must pay start-up costs of about $23,000 for inventory and working capital.

They pay a 3 percent royalty on gross sales for the first two years and 4 percent a year thereafter. An advertising fee of 2 percent is also required. Montagna says she has a waiting list of potential franchisees.

Four years ago Montagna started drawing up a franchising plan, then halted the process until she could hire a consultant to help solve problems that arose. She found that selling franchises can be expensive and difficult—a discovery made also by many who buy a franchise without first doing the necessary homework.

But those who thoroughly investigate franchising possibilities and pounce on a good one can discover they have seized a golden opportunity. ■

To order reprints of this article, see page 84.

MANAGING YOUR BUSINESS

Fire Them All?

By Harry Bacas

All five employees at Al Wittik's Diamond Tires company in Elizabeth, N.J., are on somebody else's payroll.

He leases them from a service and is pleased with the arrangement, even though he once was stuck with a loss when an earlier employee-leasing service went broke.

"That other company owes me \$2,000," Wittik says. "But I went back into leasing because I liked the concept."

The practice of leasing employees is 15 years old, and the basic process has not changed much: A small employer "fires" his employees, who are then hired by a company in the business of leasing workers. That company immediately leases them to their former employer. That employer still determines who works for him at what wages, who gets promoted, who gets time off and who is fired.

But these employees are paid by the leasing company, which also finances their benefits. In many instances, those benefits are better than those they had while working directly for the company to which they are now leased.

Al Wittik's experience shows how employee leasing has been maturing recently. Although changing tax laws have hit some leasing companies and a few have had financial problems, industry growth is accelerating. Leasing is acquiring credibility, and there are signs it will soon expand beyond the small-business market to serve larger companies.

An industry group formed three years ago, the National Staff Leasing Association, headquartered in Encino, Calif., has grown to 100 members, or about 30 percent of all leasing companies. Executive Director Joseph Honick says the industry "is just beginning to hit the stride of expansion across the country."

Al Wittik is sold. "Leasing was a very good move for me," he says. "First, I don't have to deal with the Internal Revenue Service on payroll taxes; I'm insulated from their incompetence. Second, the leasing company can provide employee benefits that were very expensive for me to buy—corporate-type benefits such as hospitalization, medical and life insurance, and things which I as a small-business owner could never afford, like education expenses and eyeglasses and dental care.

"The paychecks are issued on time; you don't have to write 25 to 40 checks a month. I phone the service on Monday, after my guys have filled out their time cards, and the service expresses the paychecks to us on Wednesday with an invoice. I send them back one check, usually the same day, and I send it by regular mail."

Al Wittik even leases himself from the service because he wants the same benefits his employees have. After his first service went bankrupt because management controls did not keep pace with its rapid growth, Wittik turned to Employee Leasing of America, a division of Irene Cohen Personnel, a large New York firm that operates several employment and training companies.

The Cohen company had a reputation in personnel work. "We've been in business for 14 years," says Irene Cohen, "but we just started leasing in 1985, when we took over a small leasing company. I had difficulty understanding the business at first, all that tax advantaging and pension-law stuff. I hated it. I thought it was a gimmick, not a human-resource service."

But she became more comfortable with the leasing concept and began seeking ways to make it more effective. "We decided we would offer a business-management service, using the power of group buying to provide the client cheaper benefits.

"The term 'leasing' is a terrible misnomer," she adds. "It ought to be called personnel or benefits administration. But I guess we're stuck with it."

But the industry sees the possibility of image problems beyond terminology. As a result of problems that developed among some of the companies in the field early, the National Staff Leasing Association requires its members to furnish quarterly audits attesting to their financial stability and prompt payment of taxes.

Carmen Arno, head of Arno & Associates, Los Angeles, who publishes an annual directory of leasing companies, says that the number of leasing companies has dropped in the last year from 350 to under 300, but the number of

PHOTO: RICHARD HOWARD

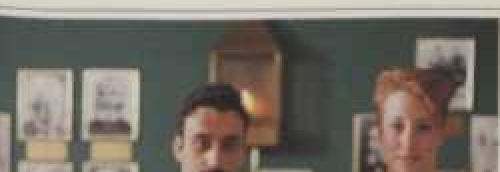
Kathleen McCabe visits two of her carpenter employees on a house-remodeling job in Windsor, Conn.

Checklist For Employee Leasing

Business owners considering signing over their employees to a leasing company should first look into the company's qualifications. This checklist is compiled from suggestions by the National Staff Network, Van Nuys, Calif., and by Arno & Associates, Los Angeles:

- Does the company provide benefits that meet your needs? Are the benefits underwritten by major carriers?
- Does the company belong to a certifying organization? Does it furnish quarterly statements of timely tax and premium payments?

If you have ever thought about doing that, you may not be wrong. Leasing them back (including yourself) could let you shed a big paperwork burden.



Becky Outlaw's company leases waiters, cooks and managers to Henry Norton's Chicago Chop House.

• Can it supply bank references to verify financial stability?

• Can it supply client references to confirm quality of service?

• Does its personnel-management program fit your company?

• If a deposit is required, where will it be held? Will you earn interest on the amount?

• Is the leasing company at risk for payroll? Does it invoice clients *after* paying the staff?

• Will there be a local agent to deal directly with you and your staff on matters related to payroll, personnel and insurance?

leased employees has more than doubled— from 120,000 to 250,000. The drop in the number of firms resulted from provisions of the 1986 tax-reform act, which virtually wiped out a former pension "safe harbor" for some leasing-firm clients.

The old tax rules had let high-income professionals shelter large contributions to their own retirement plans from taxes if they leased their office employees from a company that contributed 7.5 percent of salary to employee pensions. Most of the leasing companies that failed had built their business on the limited market of such "safe harbor" clients. Leasing companies that survived offered a wider range of personnel services to clients with other needs.

Now the leasing market is broadening. Though a 50-employee company was once considered the largest that could benefit from leasing, the service is being marketed to companies with as many as 150 employees and to small divisions of major corporations. The latter sometimes have specialized needs.

For example, Spalding Sports Worldwide, in Chicopee, Mass., a sporting-goods manufacturer with $225 million in annual sales and more than 1,000 employees, leases one employee from PayMaster in Windsor, Conn. The employee is a salesman who is on the road most of the time promoting Spalding's Tournament Plus softball, "the only softball made entirely in the United States." Leasing saves Spalding the bookkeeping that would be required to support this one-man division.

Kathleen V. McCabe, president of PayMaster, has been in business for three years and has 30 clients in six New England states. She says large corporations such as Spalding are beginning to realize the advantages of leasing in special situations, like a company restructuring or an experimental project with an uncertain future.

McCabe says her typical client is "a small business in which the owner and the owner's spouse are actively involved and find that time spent on payroll, personnel and benefits administration takes too much away from the time they need to concentrate on the business itself."

Most leasing companies base administrative fees on a percentage of total payroll. The percentage varies with the number of employees, the pay range and the amount of service. McCabe's fees average 6.5 percent. Irene Cohen, on the other hand, charges a dollar figure per employee, perhaps $500 to $800 a year for a medium-sized company and $1,000 for a company with only 10 employees.

Becky Outlaw, president of Heatherton Staff Leasing in Chicago, says her charges range from 3 to 10 percent. Her company (named for her two children, Heather and Weston) has 30 clients and 1,500 employees.

After a business career that included operating several restaurants and food services in her native Kentucky, she opened a contract-staffing service in Chicago five years ago. It supplies engineers, word processors and other support staff to companies that need employees for less than 12 months a year. A year later she added the leasing service. She has capitalized on her restaurant background by signing up restaurants.

"Restaurants are a lot tougher than many businesses," Outlaw says. "There is so much turnover, and the payroll is complicated by having to report tips."

Like Cohen, Outlaw is talking to larger companies. One advantage a larger company might derive from leasing is the ability to have retirees return to full-time work without interruption in their pension payments. As employees of the leasing company, they would be working at—but not for—the firm from which they receive retirement beneifts.

Are leasing companies making money? Cohen says her leasing division is still being subsidized by the other divisions. Even with a $3 million payroll, "we're not making money yet," she says. "We need $4 million to break even."

Says McCabe: "People who will go into this industry believing that it really is a valuable service, who are able to invest their own money in it, who are willing to work long and hard and who don't expect overnight success are what the employee-leasing industry needs." NB

Exporting By The Book

By Steven Golob

Read a book, become an exporter. It's not that easy, of course. But if you are about to venture into foreign markets or you've just recently reached them, you might boost your confidence and your profits by tapping the expertise contained in various publications—particularly three new books—written to help business people succeed at exporting.

Several books and booklets on the subject—many from accounting firms promoting their services—deserve attention, particularly if you already have some experience as an exporter.

If you are a novice, you may save time and money in your exporting efforts by examining the three new books—a how-to workbook, a reference book and a reminiscence.

The *Export Sales and Marketing Manual* is a how-to book by John R. Jagoe, an export-marketing consultant in Minneapolis who specializes in small and midsized businesses. His step-by-step workbook has 320 pages in a three-ring binder and costs $295. There will be quarterly updates, each 20 to 50 pages, for $200 a year, or $350 for two years. To order, call Export USA Publications, (612) 893-0624.

If you want to see the book before buying it, you can examine it at some Commerce Department district offices or at the world trade centers in New York, Atlanta, Baltimore, New Orleans and Milwaukee. It soon may be available at libraries.

The manual's 15 chapters include "Pricing Your Products for Export" and "Budgeting for Export," which provide extensive treatments of these highly complicated areas. Both begin with simple statements that nonetheless may be surprising.

"You can charge lower prices in foreign markets than in the United States, and earn a higher after-tax profit," opens the chapter on pricing.

The chapter on budgeting begins: "Do not plan to earn a profit in the first year of exporting." That is obvious to some, surprising to others. The chapter continues with five-year plans for becoming profitable and increasing profitability.

Addressing the subject differently, John C. Rennie has done an exporter's reference book called *Exportise No. 2* for the Small Business Foundation of America [to order, call (617) 350-5096]. The $29.50 book is a revision and expansion of the original, published four years ago.

Rennie is president of the Boston-based foundation, a board member of the U.S. Chamber of Commerce and head of Pacer Systems, in Billerica, Mass. Pacer is an aerospace company that provides technical services and products for program managers developing large military systems.

"Some how-to books go on for page after page on how to fill out a customs declaration or an export-license form," Rennie says. "We tell the small-business executive you have no business filling out those things. There are people who make a living doing that. They do it right, and they don't cost very much." *Exportise No. 2* explains what they do and shows where to find them.

While Jagoe's how-to manual is sophisticated, offering far more than simple instructions on filling out forms, Rennie's 255-page reference book, at one-tenth the price, would be sufficient for most first-time exporters.

Cracking the Global Market [$17.95; available from Amacom, a division of the American Management Association, (212) 586-8100] is subtitled *How To Do Business Around the Corner and Around the World.*

Writing in a friendly, first-person style, author Jack Nadel of Los Angeles tells how he has done business around the corner and around the world for the past 40 years.

He relates efforts that soured, and he offers tips for success. For example, use high-quality stationery, he says, because it may be the only tangible impression you make on people overseas.

And he tells stories, including some chestnuts that may be good for your company's next sales meeting.

Nadel has been involved in just about every phase of international business, and has made a good living at it. His exports have been mostly disposable items sold to companies for use as promotions. His book—less of a "how-to" than its subtitle might suggest—is marred in spots with prejudice and preaching. Yet a rookie exporter can learn a lot from this wily veteran.

Good sources of information abound

PHOTO: JOEL W. ROGERS—UNIPHOTO

Trade Bill Danger

The longer it takes Congress to enact a trade bill, the more apt the measure is to stray from its original goals and become protectionist, warns William T. Archey, vice president, international, of the U.S. Chamber of Commerce.

"The intent of the differing trade bills passed by the House and the Senate last year is twofold: attacking foreign unfair trade practices and improving access to foreign markets for U.S. goods, services and investments. These goals are tough but not protectionist," says Archey.

"But the longer the debate goes on, the more likely Congress will be to vote on the politics rather than the substance of trade." The two bills have good and bad points, Archey says, and if conferees take the best provisions of each, they can produce an outstanding measure that is tough but not protectionist. But if Congress is to avoid politicizing the matter, it must act promptly to pass the measure.

Newcomers to exporting can read all about it—in publications that explain the procedures and pitfalls.

in addition to the three publications mentioned above. Many pamphlets and books are available free or at nominal cost from accounting firms. Following are some of the publications in the international area:

- *Foreign Exchange Information: A Worldwide Summary* and *Doing Business in Germany,* two booklets in Price Waterhouse's series of more than 70, were updated recently and are free at Price Waterhouse's 113 U.S. offices.
- *A Survey of State Development Authorities: Concerns of Small to Mid-Size Businesses Wishing to Go International.* For $2, Arthur Young (202/956-6154) will send you the results, due out this month, of their survey. For $6, you can get *An International Overview of Tax Rates, Tax Incentives, Government Grants and Loan Programs in Selected Countries.*
- *Doing Business in Europe* is the most recently revised of Deloitte Haskins & Sells' 40 international booklets. It's free at the firm's 111 U.S. offices.
- *Tax News International,* a newsletter of up to 30 pages summarizing tax legislation and regulation changes, is free from Ernst & Whinney (212/830-6551). The next issue of the quarterly newsletter comes out in March. In January, Ernst & Whinney made available, also free, revised and expanded editions of two books, *Corporate Taxes—A Worldwide Guide* and *Personal Taxes—A Worldwide Guide.*
- *Tax Treatment of Foreign Exchange Gains and Losses* is a 137-page book, the latest of more than 40 internationally oriented pamphlets, booklets and books from Peat Marwick Main. Check with one of the firm's 137 U.S. offices for a free copy. NB

MANAGING YOUR BUSINESS

Tackling Office Tasks With High-Tech Tools

By Karen Berney

While the personal computer takes center stage in the electronic office, it often performs with help from a supporting cast that includes typewriters, calculators, facsimile machines and printers. Nation's Business *examines these office tools—now heavy with standard and advanced features yet light on your office-machines budget.*

Many typewriters today can perform like specialized computers. This new IBM typing system can function as both a PC and stand-alone typewriter.

It's 8:50 a.m. You've finished your coffee, scanned the morning newspapers and opened your daily reminder book to read the top item: "Get out that memo on the new price list."

No sweat. You pull out your professional business calculator. For each product, you enter your production costs and desired rate of return and then you press the calculate button. Thirty minutes later you hand over the completed price list to your secretary.

Because the latest version of the memo is stored in her typewriter's electronic memory, she simply calls it up and plugs in the new numbers. She runs her work through a built-in spelling checker, makes corrections and prints a copy.

It's 9:45. You'd like your accountant outside the office to review and respond to the memo by early afternoon. No problem.

Your secretary feeds the document into your new facsimile machine. In less than half a minute, the memo has reached its destination.

Or, in an alternative setup, the memo is updated on a personal computer. Since the PC has the latest communications tool—an expansion board that turns it into a facsimile machine—your secretary never had to leave her desk to send the memo.

She simply told the PC to convert the file into fax format and dial the number of the accountant's fax machine every two minutes until a connection is made and the memo is sent and acknowledged.

You return from lunch at 1:00 p.m. On your desk is a message from your accountant. You make final changes in the list and ask your secretary to print out copies for your 150 distributors. Connected to her PC is a new 24-pin dot-matrix printer that will polish off the job in 25 to 30 minutes.

Next, she programs the printer to type adhesive labels for the envelopes. The letters are stacked and ready for the 2:30 p.m. mail pickup.

If time is short, however, the memo could be "faxed" to the distributors. And if tomorrow is soon enough for them to see the document, you could direct the facsimile machine to transmit the memo list at night when telephone rates are the lowest.

The job is done—with time to spare.

Typewriters: Versatile Displays

Remember your first correcting typewriter? What a joy it was to backspace and lift typing errors off the page. That feature marked electromechanical typewriters of the 1970s.

Typewriters have gone electronic since then, and even the simplest, lowest-cost models can extinguish mistakes long before they are printed.

"Today's typewriters are a far cry from the trusty IBM Selectric most businesses grew up with," says Kevin Shea, manager of Xerox Corporation's Memorywriter product line. While the old IBMs had more than 2,000 moving parts, current models contain fewer than 100. At their heart lie the same electronic components that power personal computers. In fact, Shea says, "your average typewriter is more a specialized PC than a (typing) machine."

So why choose a typewriter over a PC when a PC can do sophisticated word processing and a whole lot more?

A typewriter can be used for multipart forms, labels, envelopes, index cards and short letters, says Dominic Vespia, president of Swintec Corporation, the third-largest supplier of typewriters. "I have yet to see a PC that can type a form," he says, "and using a PC for the other tasks is pure overkill."

Xerox's Shea says typewriters possess two other advantages over PCs—affordability and size. While a low-end PC may cost just over $1,000, or about the price of a high-end typewriter, a PC also needs software, a printer and extra storage to be truly productive.

And although PCs are referred to as "desktop" computers, they usually are too large for the ordinary desktop. In a typewriter, the screen, printer and keyboard are self-contained, making it small enough not to crowd a desktop.

Today's typewriters are in three categories: portables, editable memory systems and screen-based units.

Nearly 90 percent of all new sales consist of memory typewriters. Screen-

Four essential types of equipment for the modern office—typewriters, calculators, facsimile machines and printers—expand in usefulness, shrink in price and make quick work of 9-to-5 chores.

This new business calculator from Hewlett-Packard displays messages and prompts in English to walk you through financial and statistical calculations.

based systems, which have an attached computer display, are relatively new and just starting to catch on. According to Dataquest Inc., a San Jose, Calif., market-research firm, shipments of screen-based typewriters will exceed 85,000 units this year, a 25 percent gain over 1987.

The hallmark of the memory typewriter is its ability to store up to a few pages of text and display at least one line that can be edited at the keyboard prior to printing. Prices start at $700 for models with memory for three or four pages of text, and they climb to $1,500 for machines that sport larger memories and more features.

Typical of top-of-the-line offerings in the memory class is Xerox's 6020 Memorywriter, with a three-line display. This $1,495 typewriter features standard word-processing functions plus advanced features such as programing of commonly used phrases, addresses and formats.

On the next-higher step are screen-based systems in which a computer display is attached to a typewriting keyboard by a swinging arm. Brother International Corporation's $2,095 Perfectype is one such model.

Somewhat less versatile than a screen-based typewriter is a "personal writer," the new name for a dedicated word processor. These machines occupy the desk space of a typewriter, have self-contained printers and have screens that approach the size of a full-size computer display.

They are available from three companies: Magnavox, offering the Videowriter 350 for $799 and the 450 model for $899; Smith Corona, which sells both the PWP 6 and the PWP 14 for $599; and Britain's Amstrad, with its $799 model PCW 9512.

The latest innovation is a word processor that can also function as a stand-alone typewriter or a PC. Last June, IBM introduced the Personal Typing System, an XT-class computer that includes an impact printer for $2,895. With this machine, the user could type an envelope, switch to word processing and then go to a PC software package to produce spreadsheets or graphics.

On the horizon, industry representatives see typewriters with more bells and whistles at prices that should continue to drop 5 to 10 percent a year. And as long as there are letters, labels, envelopes and forms to be typed, there will always be a place for typewriters in business offices.

Calculators: Smart Touches

Calculators no longer are just four-function, pocket-sized devices for balancing a checking account. Today's business calculators are smart. They store commonly used financial and statistical formulas for basic computations such as interest payments, return on investment, inventory turnover rate, and markup as a percent of cost and price. Indeed, calculators such as Hewlett-Packard's popular $80 12C can even perform like small spreadsheets, forecasting sales, production rates and expenses.

But as manufacturers acknowledge, making calculators more intelligent also made them less easy to use. Until recently, learning to operate a business calculator was akin to mastering a computer software program—to become proficient, you had to memorize long sequences of keystrokes.

Jennifer Rush, product-marketing manager for Texas Instruments' line of business calculators, says that now "the goal is to scale the calculator to needs of the user—whether it be an engineer, banker or graduate student—and design machines that are very good at handling a fixed set of tasks."

Carmen West, marketing manager for Hewlett-Packard's division for hand-held computers and calculators, says building function-rich calculators is still a company objective if it can be achieved without adding operational complexity.

Although many think "that calculators have gone the way of the slide rule," she says, the calculator is still as basic a business tool as the telephone.

Facsimile Machines: Rapid Transit

Decades before computers could communicate, facsimile machines were zapping text and pictures around the country and across the oceans as fast as you could make a phone call.

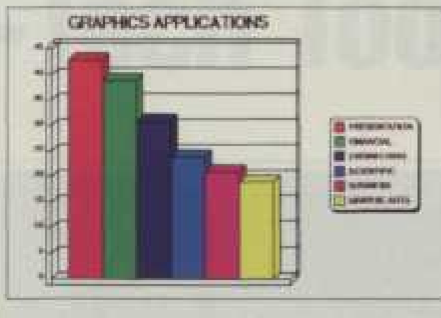
But while the technology for sending a copy of a document over telephone lines is as old as Ma Bell, it had never grown beyond the offices of the nation's largest 1,000 companies.

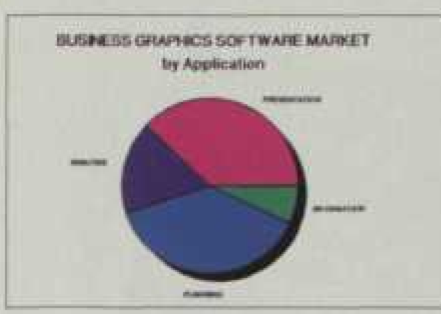
That is all changing. Today, businesses of all sizes are snapping up facsimile machines, and small firms are fast becoming the industry's best customers.

About 11 percent of the 2 million

Tackling Office Tasks With High-Tech Tools

With an ink-jet printer, your business can produce color images in-house for formal presentations.





New ink-jet color printers are breaking price and quality barriers; this Xerox 4020 sells at a discount for $1,000.

businesses in the United States employing from five to 100 people own a facsimile terminal, reports CAP International, Inc., a Marshfield, Mass., market-research firm. Over half of those owners bought in 1987, and CAP expects the buying trend to hold until 1991, when facsimile will have penetrated 50 percent of the small-business market.

Why the surge in popularity? In the early 1980s, facsimile machines were expensive, bulky and slow, says Julie Weiss, a telecommunications analyst with Dataquest Inc., in San Jose, Calif. They cost from $7,000 to $9,000 each, and they took more than three minutes to send a one-page letter.

Since then, facsimile terminals have been shedding their mechanical parts for integrated circuits, causing manufacturing costs to tumble. And facsimile has become faster. A new international transmission standard issued two years ago cut the time for sending that one-page letter to 25 seconds.

Lured by exploding sales, more than 20 vendors now offer facsimile products. Major players include Canon, Panasonic, Pitney Bowes, Ricoh, Murata Business Systems, Xerox, AT&T, Harris/3M, Sharp and NEC. You can spend as little as $1,500 or as much as $8,000 on a fax machine, but always look for the following standard features:

- An automatic paper feeder.
- Speed-dialing of telephone numbers.
- Store and forward. This allows you to store messages and distribute them unattended at set times to one or multiple locations.
- A journal that tracks incoming and outgoing messages.
- Confidentiality. Many products can be programed not to print facsimile messages until the right person shows up and punches in a security code.
- Compatibility with machines installed in other businesses' offices.

Speedy and economical, fax is fast becoming a strong competitor to its closest relative, electronic mail. (Fax is already cheaper and faster than overnight mail.) Some even argue that fax is superior. Unlike E-mail, fax machines can transfer visual images, such as signatures, photographs and graphs, which account for a sizable portion of business correspondence.

While fax is useful for sending and receiving hard-copy documents, it is powerless to deal with material residing in a computer. Hence, the emergence of PC-fax, an expansion board that fits into a slot in a personal computer and enables it to swap text and graphics files with stand-alone fax machines.

If your business generates a lot of information by computer, you might want to look at this new technology. PC-fax boards come loaded with the standard features of most stand-alone machines. Prices range from $499 for The Complete Fax, made by The Complete PC, Milpitas, Calif., to $1,195 for the Microfax, from Datacopy Corporation, Mountain View, Calif.

Though only two years old and evolving fast, PC-fax technology does have some major limitations. To truly emulate facsimile, the boards require supporting hardware and software, notes SVP/Find, a New York market-research firm that recently released a study of the facsimile market. At the very least you need access to a dot-matrix printer to print graphics.

Of course, PC-fax board makers aren't standing still, but for now, stand-alone fax vendors enjoy the advantage.

Printers: Typecast No More

Not long ago, in-house printing of professional-looking documents was an option within the grasp of only those businesses that could afford to pay $5,000 for a printer. But for printers, as for every other fixture in the modern electronic office, quality continues to improve while costs are falling.

With hundreds of models available at prices as low as $200, virtually every small business can justify purchasing a printer or replacing an outdated one. You just have to decide which of the three available technologies you want: daisy-wheel, dot-matrix or laser.

Daisy-Wheel Printers. Daisy wheels, the print mechanisms in nearly every typewriter, are circular devices with letters on the ends of thin spokes. Daisy-wheel printers deliver letter-quality text, but that's about all. Because the technology is slow and cannot handle graphics, daisy-wheel printers are a dying breed. In its annual review of printers published last November 10, *PC Magazine* tested only five daisy-wheels, down from 12 in 1986 and 15 the previous year. The five models were: Brother International's HR-20 and HR-40, $499 and $799 respectively; Fortis' DX41, $699; Panasonic's KX-P3131, $419; and Primage's 90-GT, $1,095.

Dot-Matrix Printers. If you go shopping for a printer, the chances are two out of three that you will walk away with a dot-matrix machine. Durable and versatile, a dot-matrix printer is the way to go if you can accept type of nearly letter quality; purists should stick to daisy-wheel or laser printing.

In dot-matrix printing, characters are formed by pins that strike a ribbon against paper, creating clusters of dots. The higher the number of pins, the finer the print. Most printers on the market are 9-pin units, but the industry is shifting toward higher-quality 18- and 24-pin designs, which are also more expensive. Panasonic's 9-pin KX-P1091i sells for $289, whereas Epson's 24-pin LQ-850 retails for $799.

All dot-matrix printers can produce graphics and, lately, different fonts and type pitches, which are built into the systems.

Common equipment options are envelope sheet feeders, dual-bin sheet feeders and multistrike film ribbons to produce higher-contrast text.

Most of the excitement in the field centers on color. A few months ago, Hewlett-Packard set a new standard with its $1,395 PaintJet printer. The printer can create 16 colors at a time by using a form of dot-matrix technology known as ink jet.

Greg Porell, an industry analyst with CAP International, notes that a new seven-color dot-matrix printer from Star Micronics America, Irving, Calif., sells for a record-breaking low of $395.

This printer, Porell says, is the forerunner of the kind of product that is going to make small businesses reconsider working in plain black and white.

Laser Printers. If you are seeking the highest quality, you're probably a candidate for a laser printer. In laser printing, an image is projected onto a rotating photosensitive drum and then transferred to paper. The result is print quality close to what you would expect of professional typesetting.

According to *PC Magazine*, new laser printers are lighter, smaller and able to run longer before costly consumable components—the toner, developer and drum—have to be replaced.

Like dot-matrix printers, most models sport a number of built-in fonts, type pitches and front-panel touch controls for selecting options. Color laser printing is still in its infancy, though, and it is not expected to be commercially viable until the 1990s.

Because laser printers are expensive—low-end models start at approximately $1,800—businesses usually dedicate them to cranking out external correspondence.

Frequently, they are mated with desktop publishing software. These page-design and layout programs produce newsletters, brochures and visuals—slides, graphs, charts—for formal presentations.

Of the three laser printers under $2,000 that *PC Magazine* evaluated, Okidata's $1,795 Laserline 6 received the highest marks. Hewlett-Packard's $2,595 LaserJet Series II received the prize for midrange printers. NEC's $4,795 Silentwriter LC-890 was singled out as a strong contender to Apple's leading LaserWriter Plus.

Two notes about printers: Because of the multiplicity of printing standards, software products are not compatible with every printer on the market. Make sure your software supports the standard or standards emulated by your printer.

Second, the imbalance between the yen and the dollar is causing Japanese companies to consider price increases. Most Japanese vendors interviewed for this report indicated that hikes of 5 to 10 percent appear likely in the first quarter of the year—and ditto for their typewriters and facsimile products. ■

To order reprints of this article, see page 84.

THE FAMILY BUSINESS

Bringing The Kids Into Your Business

By John L. Ward and Laurel Sorenson

Sidney Taylor did not expect all his sons to join the family business. Yet today, Scott, Jeff and Bruce work for the Cole Taylor Financial Group, a bank holding company based in Wheeling, Ill. So does his daughter's husband, Daniel Bleil.

This turn of events is still somewhat mysterious to Taylor, 64, who says he did little to accomplish his secret hope that his children would love banking and join him in it.

"I didn't push," explains Taylor, chairman and CEO of the company. "I wanted them to do what made them happy." The excitement of the changing financial industry, he adds, was probably the chief allure.

Taylor may be too modest. Granting his children freedom to choose careers outside the family business—coupled with his own enthusiasm for the industry—was the best that Taylor could have done to achieve the dream of many family-business parents: bringing children into the company.

Like Taylor, you can create an atmosphere that results in a child truly wanting to join the family firm. It's critical, for instance, to let offspring know that though they are free to choose another career, they are also welcome to choose the business. You can convey this message gently in conversation—or perhaps a family letter—without imposing obligation.

Key ideas are:

- The child is welcome.
- His or her participation in the business is voluntary.
- The outcome will be supported, no matter what the choice.

A conversation might go something like this: "Your mom and I would love to have you in the family business. Of course, it's completely up to you, and it may be too early for you to know. But we want you to know you would be welcome. And we will endorse whatever decision you make."

Making the business sound like a special, exciting place is also important. At home, try discussing the joys of your job instead of only airing complaints. At work, introduce young ones to the office. Offer part-time jobs to school-aged children. Consider taking them to trade shows or on business trips.

Frances Todd Stewart, president of Kerr-Hays Co., a small specialty manufacturer headquartered in Ligonier, Pa., remembers going with her father to visit suppliers and the company's plastics factory in Hong Kong. "Dad always made business fun," she says. "He taught us the world was a place of opportunity." As a result, she eagerly joined the company at age 22.

Finally, it's important to make rules for your children's participation so they know what they must do to earn a place in the company. Rules answer key questions, such as: How old must I be to join? Do I need education or outside experience? Should I apply for a vacant post or will you create a job for me? If I leave the company, may I return?

Rules may be oral or written, rigid or flexible. One Midwest floral retailer with more than 80 employees has only one rule for family participation: "We'll move 'em in and move 'em up as fast as we can." But a Southern commercial printing house that employs more than 100 people won't permit family members to work for the company unless they hold a master's degree in business from one of a few specified schools.

No matter their content, the rules need to be communicated and fairly enforced. This prevents misunderstandings that not only drive children away from the business but cause deep rifts within the family.

Taking steps to welcome children doesn't guarantee that your sons and daughters will come into the company. But such measures significantly increase the chances.

Continued on page 72.

PHOTO: RICHARD DERK

Encouragement—not pushing—brought Sidney Taylor's sons (left to right) Scott, Jeff and Bruce into the family business.

How To Turn Off A Child

There are many things that you, as a parent, may do to block a child's desire to enter the family business. Here are some of them:

- Grumble frequently at the dinner table about your business, portraying it as an unsatisfying place.
- Be vague about qualifications for joining.
- In your effort to grant your children freedom of career choice, fail to tell them they are welcome in the business.

These are easy mistakes. But mistakes they are, effectively sending a child away.

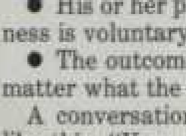


PHOTO: RICHARD DERK

John L. Ward is the Ralph Marotta professor of private enterprise at Loyola University of Chicago and a consultant to family businesses. Laurel Sorenson is a Chicago-based writer. They wrote the book Keeping the Family Business Healthy *(Jossey-Bass, San Francisco).*

Taking Stock Of Your Family Business

By Dennis T. Jaffe

How healthy is your family environment and how well run is your business?

This inventory can help you find out where you stand.

Keep in mind that this is not a test. It is a tool to help your family communicate better about family-business issues.

Each family member should fill out the inventory separately. All members of the family are involved in a family firm even if they don't have formal roles, so be sure to include spouses and family members who are not working in the company.

Once everyone has completed the inventory, compare scores. Note the areas of greatest disagreement and where certain groups, such as women, spouses, or the older or younger generation, side with each other. Consider having family meetings on each of the six sections of the inventory so that you can discuss (not argue about) your different perceptions.

Remember, the goal is improved communication.

Circle the number that most nearly describes how strongly you agree or disagree with each statement below, using the following scale:
3 = Strongly agree **1 = Disagree somewhat**
2 = Agree somewhat **0 = Strongly disagree**

Planning **Scale 1 Total** (Add circled numbers):	____
1. Customers, employees and people in the community know what our business stands for.	3 2 1 0
2. We have a written business plan that is evaluated and updated regularly.	3 2 1 0
3. We share our dreams and visions for the future.	3 2 1 0
Communication **Scale 2 Total** (Add circled numbers):	____
1. Our family meets several times a year to talk about how things are going.	3 2 1 0
2. Our family talks about differences of opinion.	3 2 1 0
3. We have a clear process for making different types of decisions.	3 2 1 0
Family Participation **Scale 3 Total** (Add circled numbers):	____
1. We evaluate clearly and objectively the performance of family members in the business.	3 2 1 0
2. Women participate in the business and face equal opportunities.	3 2 1 0
3. Family members in the business have clear responsibilities and roles.	3 2 1 0
Nonfamily Advisers **Scale 4 Total** (Add circled numbers):	____
1. The business is able to hire and retain nonfamily managers in responsible positions.	3 2 1 0
2. We listen to and consider new ideas from our younger generation and outside managers.	3 2 1 0
3. Advisers from outside the business meet with us regularly and have been willing to give us "bad news."	3 2 1 0
Succession **Scale 5 Total** (Add circled numbers):	____
1. There has been some discussion and planning for the possible roles of heirs as they enter the business.	3 2 1 0
2. The heirs have had a chance to work outside the business.	3 2 1 0
3. The heirs have the opportunity to influence planning for the future of the business.	3 2 1 0
Outside The Business **Scale 6 Total** (Add circled numbers):	____
1. The family spends time together relaxing in nonbusiness activities.	3 2 1 0
2. Our family is active in the community.	3 2 1 0
3. Family members in the business have outside hobbies or interests.	3 2 1 0

Excerpted with permission from The Family Business Assessment Inventory℠, by Dennis T. Jaffe, Ph.D.

Taking Part In Taking Stock

PHOTO: LINDA SUE SCOTT

About 200 family businesses have participated in the development of the inventory designed by Dennis T. Jaffe and Carol Goodman, San Francisco family-business consultants.

Preliminary findings indicate that younger people and women see more of the problems and experience more conflict and discomfort in family businesses than do others.

This is especially true where the founders are still running the companies because, says Jaffe, "entrepreneurs are not really used to sharing and working together with other family members to solve problems."

Conflict between age groups seems to be starkest in companies that are making the transition from the first generation to the second, according to Jaffe. Harmony in businesses making the transition to the third generation may be greater because the firm already has experienced one succession, and because the transition is between two generations of managers rather than between an entrepreneur and an ongoing manager.

If you and your family would like to participate in the research by filling out a longer inventory, send a stamped, self-addressed envelope to Jaffe and Goodman at The Family Firm Network, 2169 Union St., San Francisco, Calif. 94123.

Families that share their scores with The Family Firm Network will receive further information about the research results.

Here's Help

ILLUSTRATION: JERRY DADDS—EUCALYPTUS TREE STUDIO

Finding Peer Support

Do you sometimes wish you knew people in other family businesses? People who could help you sort out some of the tough problems you face when you mix business with family life? Peers who really understand those problems because they are family-business members themselves?

Then maybe it's time for you to join a family-business organization. We know of two:

- National Family Business Association, 18246 Rancho Street, Tarzana, Calif. 91356; (818) 342-3745, ext. 202.
- Women in Family-Owned Business Association. Contact Allyson Sackman, Sackman Enterprises, 165 W. 73rd Street, New York, N.Y. 10023; (212) 877-6611.

Family Management

"Managing the Family in Business" is a course offered at Georgia Tech on March 7 and 8. You'll get guidance on succession planning and sound business practices.

For information, contact Education Extension Services, Georgia Institute of Technology, Atlanta, Ga. 30332-0385; (404) 894-2547.

For CEOs

"Problems in Managing a Family-Owned Business" is a pamphlet that offers useful food for thought for top executives. It looks at issues such as what to do when your untalented brother-in-law wants a job or when there is high turnover among nonfamily employees. To obtain a copy, send a check or money order for 50 cents with your request for Management Aids publication No. 2.004 to: U.S. Small Business Administration, P.O. Box 30, Denver, Colo. 80201-0030.

While you're at it, ask for the free lists of SBA's publications, Business Development Pamphlets (Form 115A) and Business Development Booklets (Form 115B).

Continue In Harmony

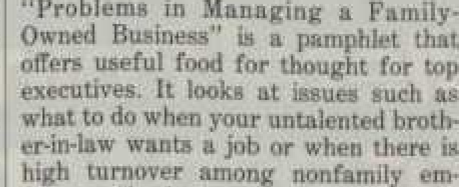


ILLUSTRATION: WANGDON LEE—EUCALYPTUS TREE STUDIO

Families with a high degree of harmony tend to be better at planning for the continuity of their businesses, according to a new study by Stewart C. Malone, assistant professor at the University of Virginia's McIntire School of Commerce.

In some cases, that harmony is the cause of planning; in others, it is the result.

"Harmony in the family business may make the continuation-planning process a more tolerable task," says Malone.

"Alternatively," he continues, "planning may clarify ambiguous relationships and problems, thus increasing the level of family harmony in the business."

The study also found that family firms that learn other aspects of business planning are better at perpetuating themselves.

And those businesses that explore issues such as potential new markets and new products are more likely to address the question of who will inherit leadership, Malone says. NB

Any Questions?

Do you have any questions or comments about being in a family business? Have you learned a valuable lesson that you would like to share with other family-business people?

We would like to hear from you.

Questions and comments of greatest reader interest will be addressed in the *Nation's Business* Family Business section. Upon request, we will keep writers' names and those of their businesses confidential.

Write to: Family Business, *Nation's Business*, 1615 H Street, N.W., Washington, D.C. 20062.

MANAGING YOUR BUSINESS

Cities Promote Small Business

A new booklet documents the fast-growing role of the private sector in helping to solve community problems.

A nonprofit community-development corporation in Greenville, Miss., shows low-income women how they can start their own businesses. In addition to running a small-business incubator program, Mississippi Action for Community Education also helps the fledgling businesses obtain loans from city banks.

In Boston, the business community is the driving force behind the Boston Compact, a private/public program to bring inner-city youths into the economic mainstream through education, training and job placement.

Private-sector leaders in Tacoma, Wash., joined city officials in a coordinated strategy to rebuild the downtown area. The results of the rebirth of that part of the city include extensive construction and renovation, higher employment, expanded retail sales and a strengthened tax base.

Those projects represent the new entrepreneurial approach of American cities, and are included in a new publication, *Business and the Entrepreneurial American City*, which documents the fast-growing role of the private sector in helping to solve problems long considered the exclusive province of government.

The booklet, published by the U.S. Chamber of Commerce, recounts case histories of business involvement in the management and redevelopment of communities. The publication has five main themes, each dealing with an aspect of the entrepreneurial city. That type of city, the authors explain:

- Taps into the private-enterprise network of institutions like insurance companies, banks and universities for alternative city and community resources;
- Recognizes the potent small-business role in restoring city economies and providing jobs;
- Recognizes the importance of human capital in marketing a city's assets;
- Turns to nonprofit enterprises to help reshape its neighborhoods and meet its economic and social needs. NB

Copies of Business and the Entrepreneurial American City *are available at $12 each from the U.S. Chamber of Commerce, 1615 H Street, N.W., Washington, D.C. 20062. Ask for Publication #0033. For prices on multiple orders, write to that address or telephone (301) 468-5128.*

Making It

You're bugged by your big feet? Baffled by bluster about the Big Board? So start a business.

Having A Foot Ball

She started her business, Shelagh Watson says, "to fulfill a personal need. I couldn't find fashion shoes in my size—11½. That started me thinking about the concept of a women's shoe store that catered to the oversize range."

Fortunately for Watson, her needs matched those of thousands of other women. In August, 1985, in downtown Cincinnati, she opened Magnifete (originally called Extremes), a women's shoe store stocking a wide range of footwear exclusively in sizes 9 to 13. Magnifete sold 6,500 pairs of shoes and grossed $367,000 in 1986. In 1987, sales rose to around $600,000. Watson has started planning for the future openings of company-owned stores in Columbus and Indianapolis, and she has launched a national sales campaign to sell Magnifete franchises.

Magnifete carries everything from casual, sports and daytime shoes to evening shoes, slippers and boots in 62 sizes, including half sizes, and six widths from AAAA to WW. Fashion is important. Says Watson: "We discovered that these women really wanted to be wearing the same kinds of shoes that better shoe stores have. These women want fashion, color, texture."

Watson strives to keep all the different styles and sizes in stock. She wants the oversize customer to be able to come to the store, try the shoes on and take them home, as opposed to the usual alternative of special ordering or catalog purchase. Magnifete maintains an inventory of 5,000 pairs of shoes—significantly more than the 3,000 pairs (and 20 sizes) that Watson says are found in a typical family shoe store.

Careful planning preceded Magnifete's opening. Lacking business experience, Watson, a former physical therapist, took a how-to course on starting a small business. She hired an accountant to project expenses and develop a business plan, and she located her store at a site that would attract both tourist and resident trade.

Despite planning, good sales and plenty of local news coverage, Watson found herself in trouble only five months after opening. "We were undercapitalized," she says, and she built up inventory too quickly. "Business was great, and we were ordering things to get them in here for customers. We just went over the edge."

PHOTO: MARCY HIGHSWANDER

If the shoe fits . . . And it will, at Shelagh Watson's Magnifete store, if you are a woman with oversize feet. Watson takes a size 11½ herself.

To solve her cash-flow problem, Watson put her personal savings into the business. She replaced her accountant with one who had more retail experience, and she hired a company that manages inventory, "because I knew I could not do this on my own. I needed an outside opinion of what I was doing right and wrong." Today Magnifete is on solid footing.

Encouraged by out-of-town buyers, Watson hired a franchising specialist and last September began offering Magnifete franchises via national publications and cable television. She hopes to sell about four dozen in the next three years.

That may sound like a big step, but not for a woman with dreams to match her feet.

—*Marcia King*

When Mark Hulbert wondered which investment newsletters were giving the best advice, he started a newsletter of his own to provide the answer.

Watcher Of The Watchmen

Every month 104 privately published newsletters arrive at Mark Hulbert's Washington, D.C., townhouse, advising him on how to invest his money in the stock market. Although he follows their instructions to the letter, Hulbert, 32, never invests a penny in stocks. Instead, he punches the investment advice into his four personal computers, which he has programed to invest make-believe money in fictitious portfolios made up of real stocks traded in real markets.

Since Hulbert started doing that, he has permanently changed the world of the stock-market investment letter.

It all began almost eight years ago when Hulbert, working as an economic analyst for the National Taxpayers Union, was exposed to the confusing world of these advisory letters. Each newsletter's editor has a system for determining buy and sell recommendations, and many letters, as if to justify their hefty subscription prices, boast of their superior records in anticipating the gyrations of the stock market.

"How does anyone really know who is giving the right advice?" Hulbert asks. His question is rhetorical, since the answer is in the *Hulbert Financial Digest*, his market letter that tracks the performance of the market letters.

In Hulbert's system, each market letter starts the year with a hypothetical $10,000 bankroll. When an issue of a market letter arrives in the mail (a disguised name and address ensure that Hulbert receives the same advice at the same time as any other subscriber), he enters its recommendations in his computers, which also keep track of price movements in the stock markets.

Every month the *Digest* rates the market letters on how well—or poorly—their recommendations have translated into increases in the imaginary bankroll. The text of each issue is transmitted by telephone to Northern Virginia Printers, whence it is released to an investment world that has come to regard the *Digest* as the standard by which the gurus are graded.

"Whether or not a newsletter appears in the *Digest* can make the difference in whether it stays in business," Hulbert says. "This is what editors have told me. So I'm getting two or three letters a week saying, 'Please follow my newsletter'" in the *Digest*.

PHOTO: RHODA BAER

The *Digest* first appeared in the summer of 1980. It struggled for a time, until word of its existence appeared in the financial press. The subscription list expanded to 3,000 almost immediately, held steady for a while and then, benefiting from the extended bull market, rocketed to its current level of about 16,000. The base subscription rate is $135 a year, although Hulbert offers inexpensive introductory rates. Last year the *Digest's* gross income was more than $1 million.

Hulbert has two silent partners: James Davidson, a former classmate of Hulbert's at Oxford University in England (Hulbert, a native of Kansas, holds a master's degree from Oxford), and William Bonner of Agora Associates, a Baltimore public-relations firm. Davidson now publishes his own market letter, *Strategic Investment*, and Bonner's firm also publishes investment letters. When Davidson and Bonner started their own newsletters, their stakes in the *Digest* were converted to nonvoting shares.

Hulbert describes himself as a pacifist, vegetarian Quaker. He says personal gain is not his major objective. He plows the bulk of the *Digest's* earnings into advertising and promotion.

The *Digest* currently tracks more than 200 stock portfolios recommended by the 104 different market letters. Every serious investor wants to know which letters were winners and losers on Hulbert's list, and the results can make a major difference to a market-letter publisher. For example, after Martin Zweig's *Zweig Forecast* led Hulbert's rankings for two years in a row, circulation jumped from 4,000 to 20,000.

The big winner for the tumultuous year of 1987 appears to be what Hulbert calls "an obscure newsletter that no one ever heard of before," *Putz Investment Report*, published in Fowler, Ind. All year long the pessimistic *Putz* advised the purchase of "put" options (the right to sell short at a later date—a decided gamble that the market will fall), and by the end of September Hulbert's *Putz* portfolio had lost 86 percent of its value. But after stock prices plummeted on October 19, the "put" options gave *Putz* a whopping 500 percent gain for the year.

Other notably successful bears were the aforementioned Zweig, who, although his portfolio was heavily invested, had hedged with enough "put" options to cancel his losses, and Richard Russell's *Dow Theory Letter*, which issued a felicitously timed sell signal on October 16.

Although Hulbert himself lost nothing on "Black Monday," since he never buys stocks, he is concerned about the possible effects of an extended bear market (if that is the outcome of the October plunge) on his *Digest*. The subscription lists of investment letters usually shrink during a bear market, he says, even though "this is probably when people most need advice."

Hulbert believes that many newsletters are "perhaps too short-term-oriented, and I think the reason for that is the dynamics of having to satisfy subscribers who may be coming up for renewal this month. Editors believe that their subscribers don't want to remain in a set of stocks month in and month out, even if that makes them more money.

"And that really points up the need for people to analyze why they're in the market. If you're there for the same reason you go to a casino at night, willing to lose money just for the fun of it, that's a different thing than going in to make money."

—*William Hoffer*

Personal Management

Is the IRS's new 25 percent penalty for "substantial understatement" giving you ulcers?

To Your Health

You may get an ulcer if you have a stressful job, but the job alone won't be to blame.

By Barbara Clayman

Calm People Get Ulcers, Too

Consider the case of a man we'll call Robert Jones. His father had an ulcer. Jones, 43, is a smoker and a drinker, and he consumes 10 to 12 cups of coffee a day. He also takes an average of four aspirins daily for chronic headaches. His occupation is stress-producing.

Jones is a composite of several peptic-ulcer patients whom doctors describe as typical.

But look at Susan Hiestand, a real person. Hiestand, 31, views herself as outgoing, happy and stable. She is a product manager for the Health Care Group at the 3M Company in St. Paul, Minn. She doesn't smoke or take aspirins, she drinks only one cup of coffee a day and indulges in only an occasional social drink. Unlike Jones, her father has never had an ulcer.

Though her family history and personal habits differ from those of the typical patient, Hiestand has a peptic ulcer. "I didn't believe that I had the personality for an ulcer," she says.

"It was like someone was sticking an ice pick in my ribs," she recalls. "When I'd get the pain at work, I thought it was related to stress." But when she doubled over in agony while sailing on a beautiful sunny day, she says, "I could no longer attribute the pain to simply a bad day at the office."

The notion that stress is the cause of ulcers is a misconception that has outlived its usefulness, according to Dr. Ronald D. Soltis, associate professor in the gastroenterology division of the University of Minnesota's medical department. "Stress is a factor, but many calm people get ulcers, too," says Soltis. And because they think stress and anxiety are the culprits, calm people often ignore their symptoms.

Soltis points out that stress may contribute to the formation of an ulcer, but

PHOTO: JON FEINGERSH—THE STOCK MARKET

is not considered the primary cause.

"However, those habits which are often used to diminish stress—such as smoking and drinking excessive amounts of coffee and alcohol—are known to aggravate and perhaps worsen a patient's condition," he says.

You may suspect an ulcer if you feel a gnawing or burning pain just below the tip of your breastbone, in the pit of the stomach. The pain may come in attacks for days or weeks and then subside or disappear. Typically, it occurs between meals and in the middle of the night, and is alleviated by food or milk. For reasons yet unknown, attacks may be more frequent in the spring and fall.

An ulcer is an open sore resulting from the eating away of a spot in the lining of the stomach or small intestine by the highly acid digestive juices of the stomach. Ulcers are more properly known as "peptic" ulcers, after the gastric juice, pepsin. They resemble tiny volcanoes with a crater in the center and measure one fourth to three fourths of an inch in diameter.

Although ulcers can occur in the stomach, they are more commonly found in the duodenum, the first part of the small intestine that joins the outlet of the stomach.

If stress isn't the major cause of ulcers, what is? Medical scientists believe duodenal ulcers are the result of excessive production of stomach acid that breaks down the resistance of the intestinal wall. Stomach, or gastric, ulcers are believed to be the result of an inherent weakness in the stomach wall.

Recent studies also suggest that a certain bacterium, Capylobacter pyloridis, may cause ulcers.

Aspirin, coffee, alcohol and emotional stress increase the production of stomach acid and may result in ulcers in some people. Arthritis patients and others who take aspirin for chronic pain often develop ulcers, as do some people who use nonsteroidal anti-inflammatory drugs for a long time.

If you are experiencing any symptoms, it is important to get medical help. Ulcers can lead to serious, even life-threatening complications. One is an obstruction, a blockage of the opening of the stomach into the duodenum, which may result from scarring caused by a longstanding peptic ulcer. A bleeding ulcer can cause anemia; if the ulcer eats into a major blood vessel, there may be severe internal hemorrhaging.

Or the ulcer may "perforate," meaning it has eroded through the entire wall of the stomach or the duodenum, allowing the stomach acids to flow into the abdominal cavity. A perforated ulcer is a surgical emergency.

Treatment of ulcers has come a long way since the prescribing of bland diets. New medicines called histamine blockers, such as Zantac and Tagamet, prevent the formation and release of excess stomach acid. While antacids are still used, their primary function is to neutralize the acids. Another new drug, Carafate, forms a coating over the ulcer, protecting it from stomach acid, thus promoting healing.

Despite these advances, it is important to recognize that it is the nature of ulcers to recur. If you are an ulcer patient, you can greatly decrease the chance of a new episode by moderating your lifestyle to reduce stress and by decreasing your use of coffee, alcohol, aspirin and cigarettes. NB

Barbara Clayman is a Minneapolis writer with a background in health care and government.

For Your Tax File

By Gerald W. Padwe, C.P.A.

Upping The Ante On "Substantial Understatement"

Most taxpayers do not expect to be penalized, even if an audit by the Internal Revenue Service shows a tax deficiency. In 1983, though, Congress required a 10 percent penalty on "substantial understatement" of tax, and revenue agents have been charging that penalty in numerous situations. In a burst of enthusiasm for deficit reduction, Congress has now increased the penalty to 25 percent.

The 25 percent penalty applies if the IRS determines that you have underpaid your tax for the year by $5,000 or more ($10,000 or more for most corporations) and the underpayment exceeds 10 percent of the tax you supposedly should have paid.

There is no penalty if you had "substantial authority" for your position or if you adequately disclosed the treatment of questionable items on your return. (More stringent rules apply to tax-shelter items.)

IRS rules provide that disclosure is adequate when, for certain items, the taxpayer has properly completed the necessary IRS forms for reporting an item on his or her tax return. For other items, disclosure must be made in the return, through a clearly identified separate attachment that discusses the tax treatment of the item or the legal issues presented by the facts.

In a recent Tax Court case, a taxpayer had deducted various farm expenses that were disallowed as hobby expenses. The IRS imposed the understatement penalty and, in the absence of substantial authority supporting the activity as a business, the court looked to the adequacy of disclosure.

Although no separate statement was attached to the return, the taxpayer had completed Schedule 1040F for reporting farm income and expenses.

The Tax Court said it would consider disclosure adequate if the return provided the IRS with enough information to identify the potential controversy, but that merely filling out Schedule 1040F would not allow the IRS to determine whether a farm was operated as a business or as a hobby. The penalty was allowed.

In another case, the same court had to consider the deductibility of "contributions" to an entity of the Universal Life Church. The court concluded that the "contributions" benefited only the individuals making the payments. Since the sole disclosure was a line on the contribution schedule showing the donee and the amount paid—and since that disclosure was intended to mislead the IRS rather than disclose the true nature of the deduction—the disclosure was not sufficient to avoid the penalty.

The 25 percent substantial underpayment penalty has thus significantly increased the risk of taking an aggressive position to reduce the amount of tax due.

PHOTO: PAUL CONKLIN—UNIPHOTO

When is a farm a hobby, and when is it a business? A taxpayer who gives the wrong answer to the IRS can be hit with a 25 percent penalty.

Gerald W. Padwe is national director-tax practice for Touche Ross & Co. Readers should see tax and legal advisers on specific cases.

IRAs: Still A Good Deal?

By now, everyone knows that, for many taxpayers, 1987 IRA contributions will be totally or partially nondeductible. Under the 1986 Tax Reform Act, the deduction phases out between $40,000 and $50,000 adjusted gross income on a joint return, and between $25,000 and $35,000 for single taxpayers.

Even though nondeductible, contributions to an IRA may still be made up to the amount permitted by prior law ($2,000 for each working spouse making at least that much, or $2,250 if there is only one working spouse).

Does a nondeductible contribution make sense? Assuming the cash is available, the answer depends on alternative investment opportunities. If, for example, your company has a 401(k) plan, and you are not already contributing up to your limitation under its rules (15 percent of compensation, with a maximum of $7,000 a year), it probably makes sense to put your $2,000 into the 401(k) plan. The amount withheld from your salary is deductible, and the earnings accumulate tax-free until withdrawn. IRA earnings also accumulate tax-free until withdrawn, but the contribution is made with after-tax, not pretax, dollars.

Unhappily, it is now too late to make a 1987 401(k) contribution. But you still have until April 15 to make a 1987 payment to your IRA. And the tax-free buildup of IRA earnings can still make such an investment attractive.

Suppose you bought an 8 percent, $2,000, one-year certificate of deposit each year for 25 years and rolled over the after-tax proceeds from maturing CDs into new ones. Assuming a stable 28 percent tax rate (and that may be an unrealistic assumption), you will have accumulated $112,000 at the end of the 25 years. If, however, your interest accumulated without tax in an IRA, you would have $158,000 (though you would have to pay tax on the accumulated interest as you withdrew it).

In short, in the absence of better alternatives, even a nondeductible IRA has some advantages. You can still make a payment for 1987 and put in an appropriate amount for 1988. ■

It's Your Money

By Ray Brady

Can "Munis" Give You More Bang For A Buck?

PHOTO: ROBERT RATHE—FOLIO

When states and cities sell bonds to finance projects such as road and sewer construction, the interest on those bonds cannot be taxed by the federal government. Even so, tax-exempt bonds are not enjoying investors' favor.

If you haven't yet seen your accountant to talk about your 1987 tax return, you probably think you're going to come away from the meeting with a smile on your face.

After all, for months now we've been hearing about the benefits that would flow to all of us from tax reform—benefits we would start to see as we made out our 1987 returns. And it's true that tax *rates* are down; for 1987 returns, the top rate is 38.5 percent, and this year the rate on the highest incomes will drop to 28 percent.

But when you come out of your accountant's office, you may have learned that for many of us—including, lamentably, this writer—rates may be down, but taxes are up.

That is because so many deductions have been done away with. Especially for taxpayers with higher incomes, that's going to mean paying out even more to Uncle Sam.

As one example, if you have been paying large amounts in consumer interest—formerly 100 percent deductible—you must get used to the idea of deducting only 65 percent of your interest costs on your 1987 return. And any interest you pay this year when you buy cars and similar consumer items will be only 40 percent deductible on your 1988 return.

Which brings us to a homey old investment that is now suffering from a bad name: tax-exempt bonds.

These are the bonds issued by states and municipalities to raise money to build schools, roads, sewers, water facilities and other kinds of public works. Under a 19th-century Supreme Court decision, the federal government is barred from taxing such obligations of states and municipalities; and since those entities don't tax their own obligations (though states can, and do, tax bonds issued by other states), the investor who judiciously selects a bond issue can get himself an investment that is absolutely free of federal or state income taxes.

If you are fortunate enough to have an income high enough to put you in the 28 percent tax bracket this year, a 6 percent tax-free return on your money is the same as getting slightly over 8 percent from an investment that is fully taxed. If you live in a high-tax state like New York, California, Minnesota or Iowa, the return from the tax-free bond is even more attractive.

But what about the bad name that municipals have gotten?

There's no denying that these have been bad times for municipal bonds and some of their owners. Last spring, many holders got bloodied when municipal bond prices fell almost 13 points. That meant you lost nearly $650 on every $5,000 face value of debt—a scary drop on an investment that's supposed to be relatively safe.

Since then, municipal bonds' reputation has fallen on even more evil times. Tax reform's lower rates reduced the investor's incentive to buy the bonds, and the Tax Reform Act also diminished the authority of many municipalities to issue them. The tax law did away with some tax breaks that prompted banks and insurance companies to buy, thus keeping the markets stable.

There has been a continuing federal investigation into possibly fraudulent bond sales, and when Wall Street started its current round of layoffs, many firms slashed their municipal-bond departments. All these developments have made the municipal-bond market a far more volatile place than it was in the past.

So why buy at all?

As one unsung genius put it about investing: "Buy 'em when nobody wants 'em." That's certainly true about municipal bonds. As a result of the lack of buyer interest in them, the investor can find general-obligation "munis," with a solid AA rating, returning 6.6 percent tax-free. That's for a 10-year bond, and it's not bad when you consider that a U.S. government bond for the same price now yields an average—and wholly taxable—8.1 percent.

The municipal bond market is, however, a far more sophisticated place than it used to be. You must check an issue carefully, or have a broker who can do so. You must make sure, for example, that a bond issue did not accidentally violate the intricate new restrictions in the tax law. (Offerings that don't meet those standards could become taxable, retroactively.)

Certain purchasers of bonds could be subject for the first time to the alternative minimum tax. So check that out, too.

If all this seems like a lot of work, it may be worthwhile to keep one thing in mind: Many economists feel that, no matter who wins the White House this year, one early act of the new President may be to seek higher tax rates, in an effort to cut the budget deficit.

If that happens, "munis" could look very attractive to many investors. NB

Ray Brady is the business correspondent for CBS News.

THE NATION'S BUSINESS

Where I Stand

Results of this monthly poll are forwarded to top government officials in the White House and Congress.

1. Should Firms Be Helped To Form Pension Plans?

While smaller businesses are the principal source of new jobs, only 19 percent of firms with fewer than 25 employees have pension plans. The Small Business Retirement and Benefits Extension Act pending in Congress would encourage small companies to establish retirement plans. The bill would ease regulatory, paperwork and cost factors that have discouraged formation of such plans. Opponents of the bill say it would tend to benefit owners of the smaller businesses more than the workers. Should firms be helped to form pension plans through the small-business retirement act?

2. Should Product Safety Be Legislated?

A House Energy and Commerce subcommittee wants to intrude in affairs of the Consumer Product Safety Commission (CPSC). The subcommittee recently approved a bill whose supporters—mostly consumer activists dissatisfied with the CPSC's cautious operating manner in recent years—advocate such things as mandatory public disclosure of even consumer complaints that have not been verified. Opponents charge this legislation would force the commission, like it or not, to readopt "trial by press release" policies of the 1970s. Should Congress intrude on current operations of the CPSC?

3. Should Government Services Be Privatized?

President Reagan's budget for fiscal year 1989, to be released in mid-February, reportedly will propose studies on transferring to the private sector certain essential government operations such as the Postal Service, air-traffic control, the Coast Guard and the National Institutes of Health. This proposal will reflect the administration's belief that private firms can supply services better and less expensively than government bureaucracies can. Opponents argue that loosening government control of essential services could be hazardous to the public. Should essential services be privatized?

Verdicts On December Poll

Here is how readers responded to the questions in the December issue.

	Yes	No	Undecided
Should notification of disease risks on the job be increased?	34%	54%	12%
Should the IRS allow less frequent payroll-tax withholding deposits?	65%	29%	6%
Should states be able to block licensing of nuclear-power plants?	36%	54%	10%

Send in your vote on the inserted postpaid card. Your views on any of these questions are also welcome as letters to the Editor, Nation's Business, 1615 H Street, N.W., Washington, D.C. 20062.

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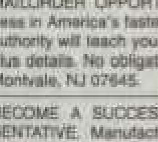

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LESSONS OF LEADERSHIP

Woman Of Steel

At 18, Nadine Gramling hooked up with a fledgling metals company. Now she runs a $28 million operation.

By Del Marth

"Nothing bugs me more than for a customer not to be taken care of properly," CEO Gramling has told the 280 employees of Jacksonville, Fla.-based Southeastern Metals Manufacturing. The company makes metal construction materials like gutters and corrugated roofs.

PHOTOS: T. MICHAEL KEZA

Nadine Gramling didn't have to say anything. They knew—the men unloading the truck—exactly what their boss was thinking.

But she said it, anyway, to the visitor at her side: "That frosts my cake real quick."

The cause of Gramling's ire was a returned truckload of galvanized gutters. The customer had ordered six-inch gutters; he had been sent five-inch.

"Nothing bugs me more than for a customer not to be taken care of properly."

Gramling, chief executive officer of Southeastern Metals Manufacturing Company, Inc., has said that repeatedly to the company's 280 employees. If Southeastern had a fight song, that would be its refrain.

"We don't blue-suede our customers," says Gramling, 42. "If we screw up, make a mistake, we'd better let that customer know about it. Integrity first, that's this company's philosophy."

Integrity pays. In 1987, Southeastern Metals, headquartered in Jacksonville, Fla., had $28 million in sales, all of it in seven southeastern states. The company manufactures metal building materials—gutters, corrugated roofs and the metal trim that goes on roof edges, under shingles—and sells them to big home-improvement chains and wholesale distributors. This year, Gramling says, her 22-member sales staff—half of them are women—will bring in more than $30 million.

Should they falter, Gramling herself will go on the road, selling, as she has in previous years when sales did not meet her goals. "I love to sell, to wheel and deal," she says. "It's how I got where I am. That, and hard work."

Back in 1964, when 18-year-old Nadine Bryson was looking for work, she chucked a well-paying offer from the mighty A&P grocery chain to work at the newborn Southeastern Metals company. "I was just a kid looking for work back then, in Jacksonville, where I had a boyfriend," she says. She had no business experience, except selling dresses and shoes in a hometown store in Lyons, Ga.

Through the classified ads, she found a $75-a-week job at the A&P offices in Jacksonville. A girlfriend, also job-hunting, decided to apply at Southeastern Metals. "But when we got to Southeastern, it was a small, raunchy place, and she wouldn't get out of the car," says Gramling. "I said, 'Gee, we've already driven here, so I'll go in and see what the job is.'"

The company, in a 4,000-square-foot shed and with four employees, wanted a secretary. The job paid $55 a week. "They did a heck of a sales job on me," Gramling recalls, "telling me the company was only four months old and how I could grow with the business."

Talking to the people at Southeastern "was like talking to my Daddy," she says. "A&P was so big and formal, I was kind of scared to death of it, so I called them to say no, thanks, and took the job here for $20 a week less."

Says D.G. Granger, who started Southeastern Metals and now serves the company as a consultant: "I practi-

Woman Of Steel

cally raised Nadine. She was a hardworking girl who learned quickly, a very smart young lady."

That first year, 1964, sales totaled a modest $116,000. A good share came from the new secretary. Granger recalls that when Gramling was not recording phoned-in orders, she took it on herself to solicit orders from past customers.

Working the phone, Gramling learned, among other things, who supplied the company's steel and which do-it-yourself chains bought Southeastern's products. After six years, she knew the metals business so well she was named sales manager. By then, plant size had grown to 40,000 square feet, sales to $2.5 million and the number of employees to 25.

"But we really didn't have a sales force," says Gramling. "I was a sales manager without salesmen. I knew all the customers, got close to them, and many of them are still with us, like family. It became my company very quickly, even though I didn't own it."

When a recession ran through the housing industry in 1974, Gramling was promoted to general manager. "We had a lot of steel sitting at the dock that year, and we couldn't return it," she recalls, "so I began living on the road, picking up new sales outlets." When the year ended, Gramling had, despite the recession, boosted sales 38 percent from the previous year, to $3.5 million.

After 10 years in the business, the former dry-goods clerk from Georgia knew more about metals than most of her competitors. Says Granger: "She got the respect of every chain store and distributor in the Southeast that we served."

When Granger decided to phase himself out of the business, Gramling was his natural successor. She became company president in 1978, and chairman and CEO in 1984.

Today, Southeastern Metals Manufacturing Company, Inc., occupies six metal buildings—300,000 square feet under roof—spread over 12 acres in northwest Jacksonville. Its giant presses shape steel and aluminum for residential and commercial building use; deliveries are made by Southeastern's fleet of 14 tractors and 24 trailers. The company has branch plants in Tampa and Troutsville, Va.

On her daily rounds through the plant, Gramling greets employees by their first names, pausing occasionally

Gramling started as a secretary, but, immersing herself in the details of the business, she rose rapidly to sales manager and then to general manager, president and CEO. She still makes daily rounds of the Jacksonville plant.

to check a shipment of steel. Says Bernice St. Clair, sales manager for the telephone-sales staff: "Nadine can look at a batch of steel and tell its gauge, its tolerance, its quality."

That expertise, Gramling says, she got from Granger. He also gave her a plaque for her office, which reads:

"Four Things A Woman Should Know:

"How to look like a girl,

"How to act like a lady,

"How to think like man,

"And how to work like a dog."

The plaque is special to her, she says. "I believe it. Of course, I don't think I have to think like a man, but I'm not a feminist, either. Nothing about me is the liberated woman. I didn't start out to be the head honcho of anything."

Fact is, she says, she wanted to be a missionary, but "I gave up that idea in high school, when I decided I wanted to get married."

She met her second husband, Donnie Gramling, at a football game in 1974; he was then the owner of a motorcyle company. They married in 1975. Granger hired him as a salesman in 1977, and he has been Southeastern's president since 1985.

Nadine Gramling has managed to have both a growing company and a growing family: She and Donnie have four children. For her, perfection at any job—wife, mother or CEO—requires only dedication. "I don't care what kind of work anyone does, even if it's digging ditches," she says. "It's my philosophy you'd better be the best damn ditch digger there ever was."

Gramling says that running a small business, where any mistake can be disastrous, forces an executive to make sure all is being done right. "You have to do many things yourself, things that you cannot delegate," she says.

"And that's one of the hardest things about running a business that grows in sales from zero to $30 million—you've got to learn to delegate, to turn loose some jobs because you should be planning for the future."

It is hard for Gramling even to vacation without a phone line to the office. "Every summer I rent a condo down at New Smyrna Beach, but I usually go with some customers, and the last time I went I stayed only five days."

Although Gramling holds a majority of Southeastern's stock (an employee stock ownership plan, started by Granger in 1972, holds the rest), she does not feel financially comfortable enough to do what she says she would like to do: "nothing. I've been working since I was 10. I've never had the opportunity to do nothing."

Until she does, she will take her job with her wherever she goes—in seven briefcases. "I have one with work in it for the main office," she says. "Then there's one for each branch, one for the state credit union of which I'm a trustee, and one for a seminar on delegating responsiblity. That red one there contains work to take home, and then there's . . . anyway, that's the idea."

An idea a bit hard to manage, perhaps, without a dolly from the plant—and the energy of a Nadine Gramling. ■

COMMENTARY

Congressional Alert

Here, in brief, are important legislative issues along with suggestions from *Nation's Business* on what you should tell members of Congress about them. Addresses: U.S. Senate, Washington, D.C. 20510 and U.S. House of Representatives, Washington, D.C. 20515.

Parental Leave

PHOTO: T. MICHAEL KEZA

The House of Representatives has been offered a new version of H.R. 925, the Family and Medical Leave Act, also known as the "mandated parental leave" bill. Called a "compromise" by proponents, it may be brought to the House floor as early as February. A Senate Labor and Human Resources subcommittee is expected to develop a similar bill.

The supporters of mandated parental leave have lost sight of the real issue. The issue is not the duration of leave or the number of employees needed to trigger the mandate; it is whether the federal government should intrude into companies' personnel policies and tell employers how to run their businesses.

If this bill is enacted, Congress will likely impose other, equally detrimental requirements on business. Organized labor's agenda for the 100th Congress presents the broader picture. Mandated health insurance, mandated catastrophic health-care coverage, minimum-wage increases, mandatory notice of plant closings and layoffs, occupational-disease notification—all loom on the horizon. Each would increase the cost of doing business, intrude on an employer's right to manage, reduce flexibility to adapt to changing global markets and specific work-force concerns, and result in fewer jobs.

Contact your representatives and senators to stress your opposition to this proposal and all proposals that mandate employee benefits. A united and vocal business community stopped this costly, intrusive measure in the 99th Congress and slowed it down last year.

"Contracting Out"

PHOTO: T. MICHAEL KEZA

According to General Accounting Office (GAO) estimates, nearly 500,000 federal employees perform 11,000 commercial or industrial-type activities at a cost of $19.4 billion per year. The President's Private Sector Survey on Cost Control (the Grace Commission) estimated that long-term savings from using the private sector—"contracting out"—would be $5.6 billion per year. Former Secretary of Defense Caspar Weinberger has stated that "competition under [contracting out] procedures has proven to be one of our best money savers. It is saving the department over $350 million annually."

Because contracting out reduces the cost of government, taxpayers, as well as business, would benefit if federal commercial or industrial activities were reduced. In view of budget constraints, efforts to reduce the federal work force, and the need to provide essential government services cost-effectively, contracting out can provide a constructive solution.

Contact your senators and representatives to urge them to enact legislation to require the federal government to rely on the private sector for needed goods and services.

Davis-Bacon Reform

PHOTO: DAVID WOODDELL

The Davis-Bacon Act, enacted over a half century ago, should be repealed, but the 100th Congress probably will not do so. However, Congress finally is expected to consider substantial changes in this law. Davis-Bacon requires contractors to pay "prevailing wages" on federally funded construction projects; such wages usually are based on union scales.

Debate will focus on two issues—organized labor's desire to expand Davis-Bacon coverage; and the desire of taxpayers, the business community and local governments to have federal construction funds spent effectively and to have the federal construction market opened to more small businesses.

Substantive reform of Davis-Bacon can resolve some of the problems created by this archaic law. Reps. Charles Stenholm (D-Tex.) and James Jeffords (R-Vt.) plan to offer such a reform bill as a substitute for H.R. 2216, a labor-supported measure introduced by Rep. Austin Murphy (D-Pa.), when it is considered by the full House of Representatives, perhaps early this year. H.R. 2216 purports to "reform" the law but actually expands its coverage to include even more projects.

Contact your representatives to urge them to reject H.R. 2216 and support the Stenholm-Jeffords substitute bill.

COMMENTARY

Editorials

Actions needed to cope with the labor shortage will contribute to the overall health of American society.

The Positive Side Of The Labor-Shortage Problem

The most critical period for new enterprises often comes in the transition from uncertain start-up to established businesses. The founders realize that they can no longer do everything themselves but must begin achieving their goals through other people. The availability of the right type of employees at the right time thus becomes an important factor in how fast the business grows or, in some cases, whether it grows at all. In established businesses, the challenge is to recruit and retain the type of employees needed to maintain and build upon success.

For those reasons, the emerging labor shortage described in this month's cover story (Page 16) represents a strong challenge to many small businesses. As the article points out, demographic trends are reducing the pool of the type of employees those businesses need. But there is a positive side: Actions needed to cope with the labor shortage will contribute to the overall health of American society.

One of the necessary corrective actions, for example, is improving the education system. Today's young people must be equipped for jobs in a marketplace that has changed drastically since their parents entered the work force. Mathematical, scientific, business and communications skills will be increasingly important, even for many entry-level jobs. And manual-labor jobs that have been the last resort for young people without education or skills will continue to decline. Both the public and private sectors are becoming more aware that if they expect the schools to train students in those skills, they must provide the support necessary to achieve those goals.

Resolving labor shortages should also direct the nation's attention to an often-neglected resource—the experience and abilities of older citizens. Many businesses have already found highly capable and dedicated workers in their ranks. Indeed, surveys have shown that productivity is often much higher and absenteeism much lower

among elderly workers than among their younger colleagues. Greater reliance on older workers will require a reexamination of attitudes toward them and their potential for continuing contributions to the economy.

Steps should also be taken to utilize what has been another neglected resource—the excessive number of young people outside the economic mainstream. Most dropped out of the education system before finishing high school. Many lack basic reading and writing skills. Some companies have launched programs to prepare those individuals for jobs in today's workplace. Schools are putting increased emphasis on the special needs of these students. The number and extent of these programs will be increased substantially over the next few years, and they will have a double impact. They will be highly significant not only in easing the labor shortage but also in improving the overall health of American society. A brief reflection on the social costs of a functionally illiterate school dropout vs. the contributions of an employed youth with potential for advancement will make the importance of these programs evident.

The emerging labor shortage is disruptive, frustrating and even threatening for many small-business employers. But it is also applying pressure for the solution of longstanding problems. Business, as well as the overall society, will be better off for those solutions.

But You're NOT Doing It Yourself

Congress argues that it can meet its fiscal-policy responsibilities without such restraints as a balanced-budget requirement and line-item veto. Yet a stopgap spending plan for the fiscal year that began last October 1 was completed nearly three months late. Even then it bore little resemblance to an actual budget.

As President Reagan said in signing the most recent spending bill: "The normal legislative process should have produced 13 appropriations bills. It did not.

"Instead, we ran the government on a string of stopgap funding measures, pushing the government right to the brink of defaulting on its commitments to the American people." Much of the legislative procrastination stems from members' refusal to accept a spending cutoff.

The lack of a balanced-budget mandate keeps them vulnerable to pressure from special-interest groups. The problem is compounded by existing law that forces the President to accept or reject complete appropriations bills. Line-item-veto authority would allow him to turn down specific spending proposals, with Congress then required to muster a two-thirds vote in each house to override him.

A balanced-budget amendment and line-item-veto authority would not of themselves re-establish a timely, orderly budget process on Capitol Hill. But they would impose a significant degree of the type of discipline that Congress obviously needs. NB

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